★ FACTORS SHAPING MARKET TRENDS ★

The MAGAZINE of WALL STREET

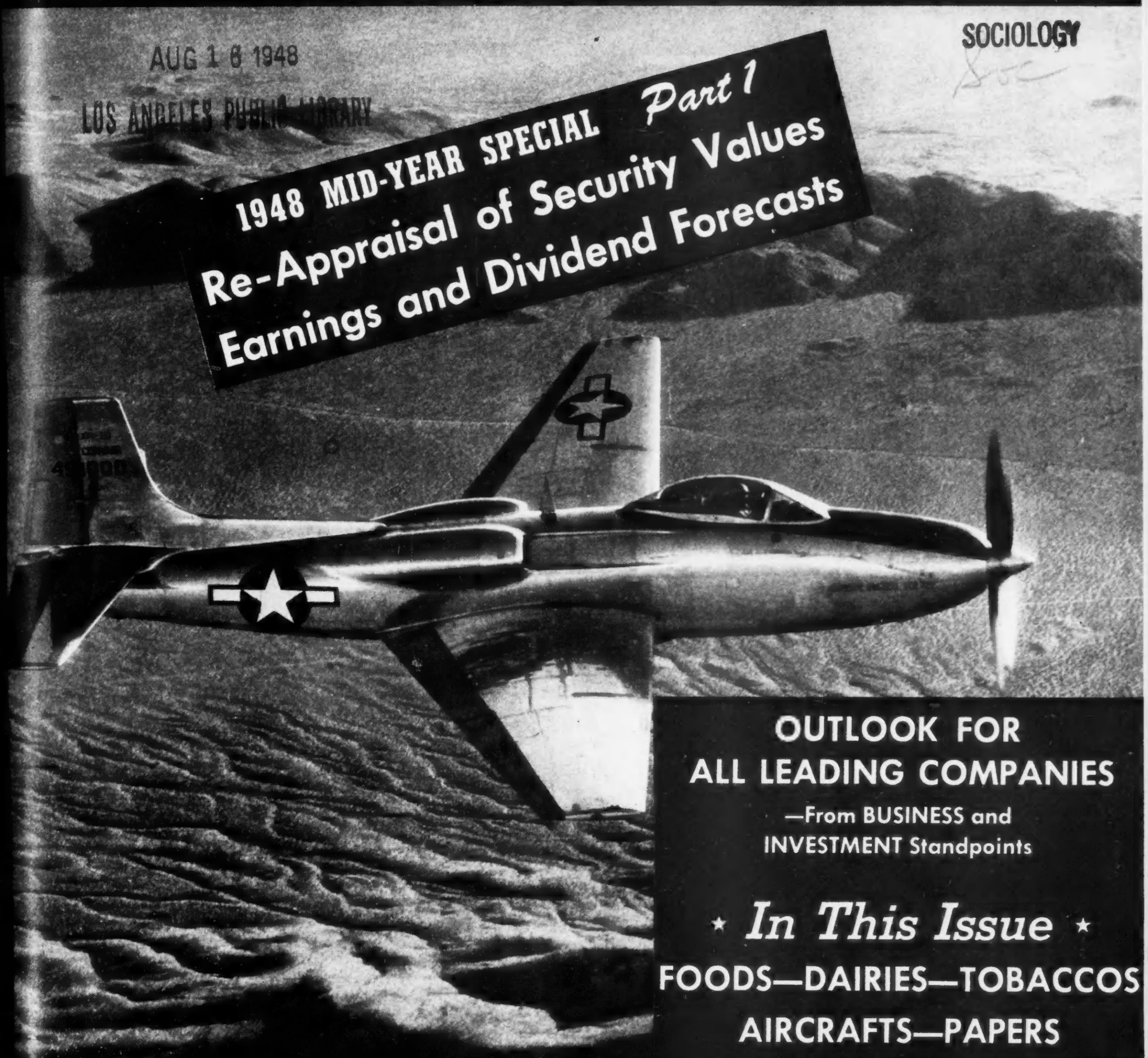
and BUSINESS ANALYST

AUGUST 14, 1948 50 CENTS

1948 MID-YEAR SPECIAL Part 1

Re-Appraisal of Security Values

Earnings and Dividend Forecasts



OUTLOOK FOR ALL LEADING COMPANIES

—From BUSINESS and INVESTMENT Standpoints

★ *In This Issue* ★

FOODS—DAIRIES—TOBACCOS

AIRCRAFTS—PAPERS

THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

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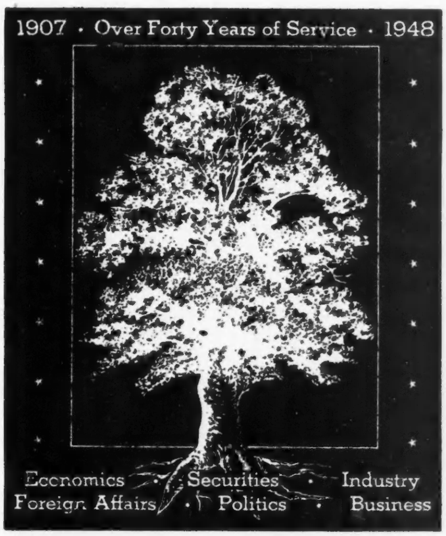
Mother Nature Joins the Fight Against High Prices

Photo by Devaney

Bumper crops are in prospect not only in this country but also in Europe and North Africa. This can be of the greatest economic importance to us not only in reducing future food prices, a most important component in the cost of living index to which wage scales are hitched, but also in aiding the success of our ERP program. The farmer viewing his promising wheat crop must be grateful that despite a poor start last fall, the July estimate is second in size only to the 1947 all time record.

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor* ARTHUR G. GAINES, *Associate Editor*



The Trend of Events

INFLATION CURBS . . . Passage by Congress of a measure to help stem the upward spiralling of prices, though falling far short of all that may be required eventually, was a step in the right direction. Stripped of the White House proposals to reestablish wage, price controls and rationing, the Bill at least paves the way to establish stronger checks upon credit expansion, though only for a limited period. Indubitably the sharp rise in installment credit to above $14 billion has been an inflationary influence, although in relation to the current national income the advance has not seemed alarming. Now that Regulation W will be restored until June 30, 1949, consumers will have to pay from 20% to one third down on their purchases of automobiles and other goods, with only 15 months in which to complete their payments. Just what immediate effect these stiffened requirements will have in restricting consumer demand remains to be seen, but the experiment probably should have been attempted at an earlier date. While everyone knows that the use of installment credit has not only sustained employment and mass production by numerous industries, as well as lifting living standards, its unrestricted employment in inflationary periods could bring repercussions. Hence to bring this form of credit to within limited bounds again has been to attack inflationary trends at one of many logical spots.

In like manner, Congress exercised wisdom by increasing the reserves that Federal Reserve Bank members must hold against deposits. Reserves against time deposits are to be increased by 1.5 percentage points and those against demand deposits by 4 percentage points. True, this step is much more moderate than requested by the Administration and will remain effective only until the end of fiscal 1949, but here again the basic idea has been to tackle inflation problems first from the angle of monetary supplies, as common sense dictates. The House of Representatives wanted to go even further in this direction by increasing the gold reserves of the regional Federal Reserve Banks but in this Senate would not concur. It is perhaps just as well that action in this sphere was deferred, for opinion differs widely as to how much real good could be accomplished by lifting the gold requirements under current conditions. The Federal Reserve presently has gold reserves larger than the maximum recently suggested. All said, the real significance of the Inflation Bill rests in a preliminary approach from a sensible direction to the complicated problem of averting inflationary disaster. The issue of high prices has definitely become the major ammunition of both Parties in the Presidential Campaign. The GOP is girding itself to highlight the conflicting policies of the Government in expanding money supplies through huge social programs, while refraining to use inflationary curbs long at their disposal. The coming four months are fraught with political developments that could decide whether Free Enterprise is to permanently endure without recourse to "Police State Methods."

The decision of Congress to eliminate slum clearance from the Housing Bill they passed is a straw in the wind to indicate the divergent philosophy of the Legislators and the Administration. While no one can deny the basic desirability of eliminating the rat infested tenement districts in many of the populous centers, this is another ill-timed proposal that would

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS : : 1907—*"Over Forty Years of Service"*—1948

involve huge sums for implementation. The Housing Bill itself is bound to created additional inflationary pressures. If slum clearance, public health measures and a long list of White House proposals were enacted now, a return to wartime controls over wages, prices, rationing and the like might be unavoidable. On this the electorate must decide next November.

PRINCE OR PAUPER . . . President Truman's proposals to broaden the Social Security base and to lift Old Age benefits have once more sharpened public interest in the widespread activities of this Government Board. For twelve years past employees and employers alike have been paying a special tax to implement the program, as everyone has been reminded when pay checks were handed out. For the second time in two years Congress has frozen the rate at 1% rather than gradually increasing it as urged, in order to thoroughly examine all the pros and cons of the multi-billion Federal project. This stop, look and listen policy of our lawmakers is warranted by the questionable manner in which the tax receipts are handled, and the radically divergent claims of Government, insurance and independent tax experts as to actuarial expectancies. The Social Security Board maintains that a current reserve of more than $6 billion will be wiped out within a few years unless the rates are raised, while their opponents figure that adherence to the original law would more than meet all requirements until 1980. Assuredly it is high time this vastly complicated set-up were closely analyzed by a competent survey group appointed by Congress, in order to judge just where the nation is heading.

Quite aside from the financial intricacies in the Social Security adventure, some of its fundamental benefits deserve deep study and potential overhauling. One present quirk in the allotment of Old Age payments is very puzzling. Beyond doubt the much discussed "common man" seldom achieves minimum economic independence by the age of 65 or ever at all. In consequence it might be supossed that long continued payments by himself and his employers to the Social Security Board would help to offset waning earning power in older years. But while as of last May about 450,000 citizens over 65 were receiving their share of $1.1 billion from this source annually, this group included only those fully retired, engaged in occupations not covered by the SSB, or earning no more than a nominal $15 per month. While this questionable rule was embodied in the law during a depression period when unemployment problems encouraged retirement of older workers, now that labor is scarce it seems unwise and very unjust. Only exceptionally thrifty workers, those reliant upon charity or friends, or with unlimited income from accumulated wealth can possibly benefit from their enforced savings program. Between these princes and paupers is a tremendous group of aging income producers unable to regain a penny of their own contributions, even though they voluntarily or perforce continue in the harness until death. Just why a worker over 65 should be so heavily penalized unless he limits his earings to the $15 monthly level set by the Government, upon which he cannot possibly exist today even with Social Security payments added, is a disturbing question for the public to consider. In fact there should be no earnings restrictions to cheat our older citizens of benefits that they have fully paid for over the years.

STRIDES IN SCIENCE . . . Ever since VJ Day the public imagination has been increasingly stimulated by predictions of new industrial miracles about to emerge from the nation's laboratories. Actual output of an endless list of improved appliances, engines and new devices within the last two years has more than justified the soundness of many of these prognostications, though some still remain in the dream stage. Video, chemicals, electronics, mass housing, diesels, air-conditioning and jet planes, to mention a few vastly improved specials, have within a short space of time opened definitely new horizons. But back of these often too casually accepted forward steps by science is a hidden array of new industrial equipment to speed up, as never before, the production of everything thus far designed to meet peacetime and defense needs. And in the background deeper yet are the scientists racing to convert the terrors of atomic energy into instruments of untold benefit for all civilization.

In evisaging the future of the aircraft industry, the near term aspects of which are discussed elsewhere in this number of our magazine, it is stirring to note what the aeronautical experts see coming on the road ahead. Leading government researchers and manufacturers during the recent airshow at New York International Airport agreed that within about five years planes that could fly well over a thousand miles per hour would become realistic. Engine development, perhaps through atomic power, may greatly expand the astonishing 32,000 hp achieved for bomber planes to date. When Congress definitely appropriates the necessary funds to implement a five year program and a seventy group Air Force, these experts feel confident that no corner of the world will be immune from speedy attack in case of emergency. It is logical to assume that peaceful aviation, too, will benefit from the technological improvements in sight.

In this connection, Gulf Oil Corporation has been giving the public a first hand view of how radar and electronics, combined with aviation, have made strides to hasten the discovery of new oil deposits. This concern has developed a "bird" that when drawn through the skies by a plane automatically registers magnetic impulses derived from subterranean rocks, charts them and reveals their exact location. At the same time, the plane photographs the exact course followed to aid in relocating a spot that the experts consider favorable after reading the chart. If the geophysicists confirm their subsurface estimates by other scientific tests, the chance of failure by drilling is reduced to about 5 to 1 compared with 30 to 1 with former wildcatting methods, although likely rock structures rather than actual oil deposits have been indicated.

Since this miracle device has been successfully tested by more than 90,000 miles of airplane flight over land and sea, civilization stands to gain in a large way from this one of many scientific accomplishments that now brighten our future outlook.

As I See It!

By ROBERT GUISE

NO TIME FOR OVER-OPTIMISM

Secrecy continues to shroud the progress of the conferences now going on at Moscow between the envoys of the United States, Great Britain and France, on the one hand, and Premier Stalin of Russia, on the other. However, when we are all let in on the facts of what has been happening, do not expect any spectacular progress toward an assured peace.

Any concession which Russia is likely to make will have some strings attached to it. Any allowance Russia grants will be in her own interests. At this writing, we see no probability of an early "shooting" war with Russia; but, neither do we see any assurance of a real peace which would permit any reduction in our armament expenditures or tranquility of mind to our citizens. In short, the cold war will contine to be with us.

Russia may ease her tactics in Berlin, but she can always create another crisis there or elsewhere as it suits her purposes. Soviet strategems change — but her underlying intentions will remain the same.

"THE MASKED OBSTRUCTOR"

Pease in The Newark Evening News

Stalin wants a unified Germany, under Russian control, and Berlin is the focal point for establishing that domination. For both defensive and offensive purposes the Soviets know that a Russian Germany would tremendously strengthen her position. Once that was secure, she could direct her energies to the highly ambitious plans for world power through her vast Asiatic and African projects.

The Allies have discovered that if we are to restore the prosperity and the safety of Western Europe, we must foster the recovery of Germany, while still safeguarding against any revival of German aggression. To a considerable extent the success of our ERP depends upon this and it cannot be achieved if Stalin has his way in Germany.

Possibly, there may be some seeming retreat on the part of Russia announced when the results of the current conferences are disclosed. If so, it will probably be because there is definite deterioration in the domestic situation in the U.S.S.R. Red press and radio have been stepping up their propaganda for home consumption because, despite all precautions, the belief is spreading among the people that the outside world, beyond the iron curtain, may be a better place in which to live.

It is reported that these ideas have been fostered be demobilized troops and former prisoners of war who have returned. Therefore, many such persons have been refused permission to go back to their homes but instead have been sent to distant points in Asia. Officers in the Red Army, who are keenly aware of the facts, are being kept under surveillance night and day. The Soviet Government may want to strengthen her position at home before embarking on some new foreign crisis and hence may be willing temporarily to allow the Berlin situation to abate.

Bitter as it is to face, we must realize that thus far the Allies have given ground on a series of previous occasions and have accepted Russia's imposition in gradually bolstering her position at the expense of the Western Powers.

Russians are realists. Their past successes in squeezing the Western Allies have engendered confidence in the future attainment of Soviet objectives. They have coldly disregarded diplomatic protests and ignored our statements that we would not stand for various conditions. The only thing they have heeded has been the fact that we have tolerated them.

Stalin does not want armed conflict. War would lose for Russia everything she has gained in the past two and one- half years. But the Reds do believe that through constant pressure, shifted from time to time to different areas, they can win their objectives first in eastern Germany and later in the entire country.

1948 is the year for a strong policy in our foreign affairs. A sign of weakness may prove fatal. Positive action and uncompromising regard for "law and human decency" — the foundation of the United Nations' principles to which Russia has bound herself, just as much as other countries—must be upheld or we may witness another disaster of war.

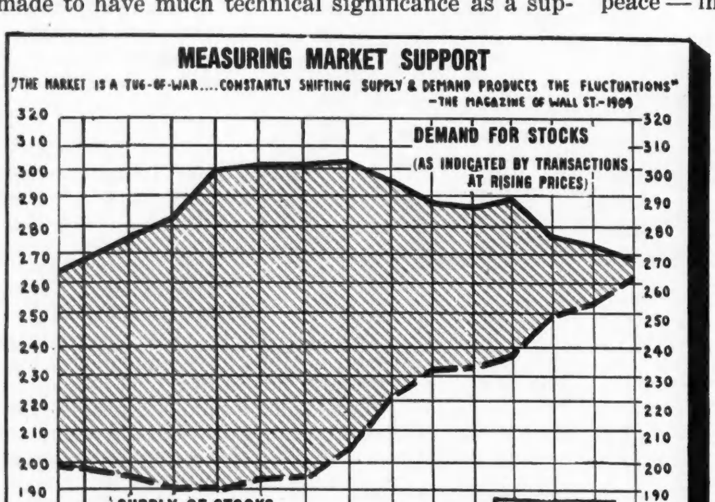
Factors Shaping Market Trends

Market action is not encouraging. Basic foreign uncertainties will continue. A more questioning attitude about continuation of the inflationary boom in 1949, and about the initial implications of the expected change in national Administration, is developing. Profit reports are more and more mixed. Our policy continues to emphasize caution.

By A. T. MILLER

There has been no significant net change in the position of the stock market during the past fortnight. Fluctuation in the averages has been narrow, on a very light volume of transactions, ever since the sharp sell-off which culminated, at least temporarily, on July 19. That fall coincided with something of a war scare, touched off by press dispatches out of blockaded Berlin. It was not possible then, nor is it now, to determine the actual influence of the war scare; for the market was vulnerable anyway—after weeks of demonstrated inability to extend the March-May rise appreciably—and therefore subject to unsettlement on almost any reason or excuse in the news.

In any event, there is little of encouragement in the recent performance. True, the July lows in the daily averages have already met one close test, without being definitely broken, and the volume thereon was moderate. However, the July lows were too recently made to have much technical significance as a support level at the present time. For that reason, and because all rallies so far have been feeble affairs, in both scope and volume, adequate indications of a completed downtrend have yet to be provided.



There has been some further deterioration in the balance between demand for stocks and the supply for sale, as brought out by the chart on this page. We do not see, either in the technical evidence or the external factors, a basis for renewed advance, as distinct from mere technical rallies. If this view is correct, the alternatives are a period of meaningless trading-range fluctuation or further decline. Under neither can there be general appeal on the buying side.

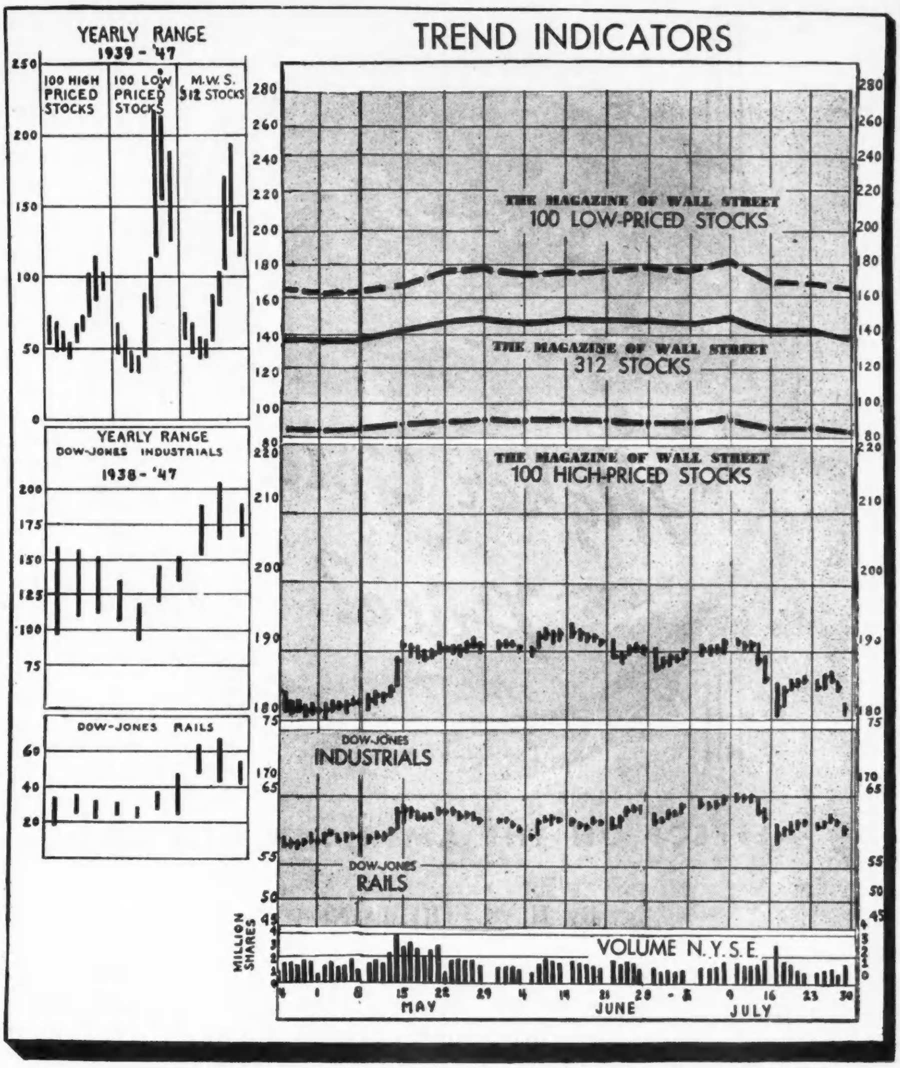
Foreign Outlook Highly Uncertain

There is no present basis whereby war can be regarded as probable within the foreseeable future. But peace — in any real sense — is even less probable. In other words, the "cold war" is not going to be called off. Communist tactics, or even strategy, might change; but not Communist purposes. By now our people are deeply suspicious of Russia, and rightly so. Therefore, there is skepticism that renewed four-power negotiations can produce a solution tolerable to the West. If the squeeze is taken off Berlin, the fact will remain that it can always be put back on because the Allied top command made the wartime mistake of letting the Russians take the capital, and much more, to begin with. Probably these are among the reasons why the stock market is not impressed by such news as has leaked out of the diplomatic talks now going on in Moscow.

The adjournment of Congress ends one of the uncertainties, but it had not been a very important one; for little action by this special session was expected, and little resulted. As this is written, it is not known whether the President will veto the housing measure for political reasons. It does not make much difference. Residential building is already about as high as it can go in total volume; and it can only be a question of time before the combination of grossly inflated home prices and poor quality of con-

struction puts demand on the skids. This particular boom could blow itself out sooner than many imagine, whatever the Government does or does not do.

The Federal Reserve Board has been empowered to raise bank reserve requirements by 4 percentage points against demand deposits, compared with 10 percentage points asked by the Administration, and by 1½ percentage points on time deposits, against 4 points sought by the Administration. The real question is not what the power limits are but how aggressively and quickly the Reserve Board will act. It certainly would not have utilized the full power demanded by the Administration, for fear of being blamed for the crash. It is probably a good guess that the more limited powers now granted will be used cautiously over a period of months. This is by no means unimportant, for in the aggregate banks could be required to raise over $5 billion in cash. The bulk of this would be had by selling Government bonds to the Reserve System, but also involved are further pressure on the corporate bond market, which can never be a good thing for the stock market, and further tightening of bank-loan policy. The latter will progressively squeeze business concerns — already a fact with many marginal ones—which are in need of borrowing more and more working-capital funds as a result of the third-round phase of the wage-price spiral, which is now merging into the fourth round in some lines.



It is our impression that investors are again feeling dubious about the future of business and earnings, as has been so at recurrent intervals ever since the 50-point market slump in the third quarter of 1946; and that this is much of the story of the present market. There was such a period in the spring of 1947, with the Dow-Jones industrial average sagging down to nearly 163. Then failure of the corn crop and soaring farm prices ended deflation fears for 1947. The industrial average rose to above 186 by July, 1947, after which doubts about 1948 business began to develop.

The More Recent History

From the 186 recovery high the market zig-zagged slowly down for months, then more rapidly in the forepart of this year to about 165 on skepticism about business in the second half. This was ended by the combination of ERP, the tax cut and announcement of the armament program—three very potent "shots in the arm." So the industrial average rose to about 193, and that was that. Now there is an increasingly questioning attitude about 1949 business and about the initial policies of the Dewey Administration, assuming that Dewey is elected.

Maybe something will come along to change this, maybe not. One must wonder how many more "shots in the arm" can be left, either actual or psychological. We could enlarge the arms program, but that would imply further deterioration in foreign relations and would hardly be bullish. The Reserve Board's Marriner S. Eccles told Congress last week that inflation is already so advanced that a bust is inevitable sooner or later. Many investors think so too, and this idea overhangs the market. And investors are worrying more about "sooner"—about what might happen in the next six to ten months—than about "later."

Meanwhile, inflation is having an increasingly uneven impact on the fortunes of different lines of business, with a large minority of individual concerns (about 40% showing smaller profits for the first half of this year than for the first half of 1947. The gain of *(Please turn to page* 512)

Higher Gold Price?

—EFFECT ON THE AMERICAN DOLLAR

By H. M. TREMAINE

Agitation to do something about gold is never subsiding entirely. Seemingly quiescent at times, it suddenly swells to a chorus of voices demanding action of this or that nature, ranging from a return to the gold standard to a free gold market or a hike in the statutory gold price. Though varying in intensity, pressure to do any one of these things seems always to be going on, their advocates apparently never discouraged by past failures and dim prospects of future success. Right now, it again looks as if we are in the "warming up" stage of another pressure campaign to do something about gold.

Earlier this year, the so-called Buffet gold coin bill was introduced in Congress with the avowed aim to "restore the right of American citizens to freely own gold and gold coins; to enable holders of paper money to redeem it in gold coin on demand and to establish and maintain a domestic gold coin standard. So far the bill got nowhere and it not likely to be enacted into law.

Undaunted by the cool reception of the Buffet measure, representatives of two mining states, Nevada and California, more recently introduced the Mc Carran-Engle bill, calling for the establishment of a free gold market. Being largely in the nature of an election year gesture by mining states spokesmen, the bill has met no serious consideration despite considerable beating of propaganda drums by interested parties.

Still more recently, certain political leaders discussing monetary anti-inflation measures have made vague mention of the desirability of a return to gold convertibility of the currency. Both such a radical step, on the practical effects of which economists express widely differing opinions, can hardly be expected to be pushed through at the special session of Congress which neither party wishes to see prolonged.

Impractical Schemes Offered

All of these attempts to do something about gold have one thing in common: They are the pet schemes of interests who would stand to profit by them, be they gold producers, speculators, export-minded business interests, hoarders or potential hoarders. From the standpoint of the national economy, neither a free gold market nor a return to the gold standard would at this time be of particular interest; disadvantages invariably outweigh any indicated advantages and the end result might well be confusion and a good many difficulties. In short, these would not be practical measures at the present juncture though they may become desirable some time in the future.

Some of the most persistent efforts to do something about gold have aimed at raising our statutory gold price of $35, now virtually the official world price. Campaigns to that end, with both national and international support, have been undertaken at regular intervals and another one is now in the offing. There is talk that when the International Monetary Fund meets next September, strong efforts for a higher gold price will be made by a number of member nations including perhaps even Britain, in the past on record as opposed to such a move. The assumed object: To raise the purchasing power of gold, reduced to about 50% of prewar.

Gold Price Should Not Be Raised

Conceivably, quite a number of other "good" reasons might be brought forward to support the case for a higher gold price; the benefits accruing to gold producers is one of the few concrete ones, though generally minimized. Naturally, gold producing countries could sell their gold output on more advantageous terms, thus strengthening their balance of payments, just as our domestic gold producers would be in a position to increase greatly the profitability of their operations, currently in the doldrums due to the painful squeeze between rising costs and a fixed selling price of their product.

The pros and cons of raising the gold price are fairly well known; they have been repeatedly discussed in the pages of this publication. There is every reason to believe that our monetary authorities, as

well as the International Monetary Fund which they strongly influence, will remain adamant in their opposition to any gold price boost at this time, if only, and probably chiefly, because of the highly inflationary nature of such a move. Resorting to it at a moment when inflation is our biggest problem would indeed be ill-timed as well as ill-advised. Raising the gold price would further cheapen the dollar; it would tend to raise commodity prices, make our own imports dearer, our exports less profitable, and in the end call for new adjustments in our already highly unsettled price structure. It would naturally attract a good deal of foreign gold because of the increased purchasing power of gold in terms of dollars. This would add fuel to inflation through monetization of gold imports. And the gold coming here would merely be buried at Fort Knox, thus become unproductive instead of fulfilling its economic function abroad.

Varied Aspects of the Gold Price Question

Gold movements to this country in the past have been sufficiently heavy to have had an important inflationary effect on our economy. Such transfers reduced the effectiveness of fiscal and monetary policies aimed at absorbing bank deposits and reserves, and curbing inflationary pressures originating in monetary sources. By raising the gold price, this effect would be greatly enhanced.

Indicative of its force has been the sharp acceleration in foreign gold losses last year, with only this country and Russia making substantial gains. Thus in 1947 alone, the U. S. purchased $2.8 billion worth of foreign gold, bringing our gold stock to some $23 billion or nearly twice as much as held by other governments. Significantly the sixteen ERP nations at the beginning of the year jointly held some $5.7 billion worth of the yellow metal. To show the shifts that have occurred: At the end of 1945, when total gold reserves held by the various governments totalled $36 billion, the U.S. held about 55% and foreign governments about 45%. At the beginning of this year, new production had raised total holdings to $37 billion, of which the U.S. held 60%, other governments 35% and the International Monetary Fund about 4%.

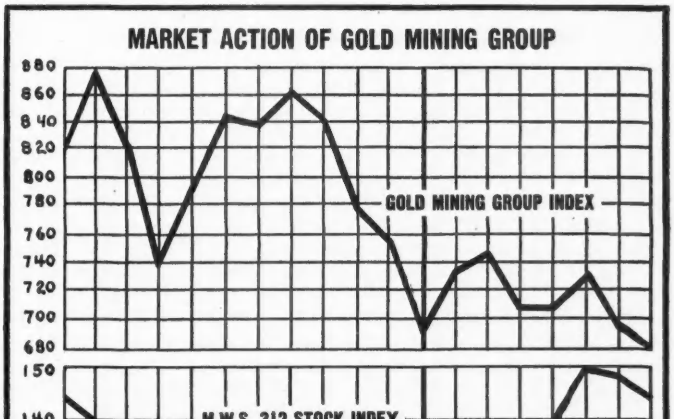
While our inflation had its origin in a number of circumstances, the gold inflow, last year alone amounting to some $2.25 billion, was far from a minor one. On this score alone, opposition to a higher gold price will be strong and convincing, for needless to say, raising the gold price would enormously stimulate the rush of gold to our shores.

The most persuasive argument in favor of a higher gold price—to alleviate the shortage of dollars in the hands of foreign countries, thereby enabling them to purchase more American goods, is beginning to look fairly threadbare. First of all, the dollar shortage is being attacked by ERP loans and grants to an extent that in the interest of fiscal and financial sanity—on both sides of the Atlantic, any further artificial measures to make dollars available appear hardly called for. By far the better way to obtain additional dollars, where needed, would be by raising production and earning dollars in world trade. Moreover, any initial advantage of a higher purchasing power of gold in terms of goods would probably be shortlived, since a higher gold price would certainly tend to inflate the price of goods internationally. It would mean, on the other hand, that many of our leading customers could purchase less here with their monetary units.

But above all, it woud be a wholly premature move. While it may temporarily act as a stimulant for foreign countries and certain foreign economies where gold production plays an important role, there is no logical justification for a higher gold price until deflationary forces become acute both at home and in the world economy at large. And this is not yet in sight; inflation is still rampant and remains the more immediate danger.

The interests pleading for a higher gold price frequently point to the premiums paid for gold in black or inofficial markets abroad as proof that the statutory gold price is too low. However, black markets are no indication of a normal gold price. High premiums are being paid because of distrust in national currencies, promoting the urge to store wealth in the form of gold at any cost. Such premiums will undoubtedly disappear when confidence is restored. To get rid of the real cause of gold hoarding, and of gold premiums, it is imperative to put a stop to inflation and also to find a true valuation of the various currencies. All this calls for fiscal and monetary reforms *first*, to make possible stabilization of currencies. To attempt to facilitate the latter by "better distribution" of gold would put the cart before the horse. No gold based currency could be maintained for long without restoration of confidence, in turn contingent on adequate fiscal and monetary reforms.

However, gold mining interests and speculators look with envy at the premiums paid abroad. Gold producers everywhere have been hard hit by rising costs and this of course is one important reason why they campaign for a higher gold price. This drive is worldwide, and the cost squeeze in some countries had led to some fancy ideas of how to overcome it. Thus South Africa, where gold production is an important economic factor, finds herself in a rather acute position but the gold dilemma has produced novel proposals. The latest one is that part of the gold output should be sold in free markets on the European Continent, presumably

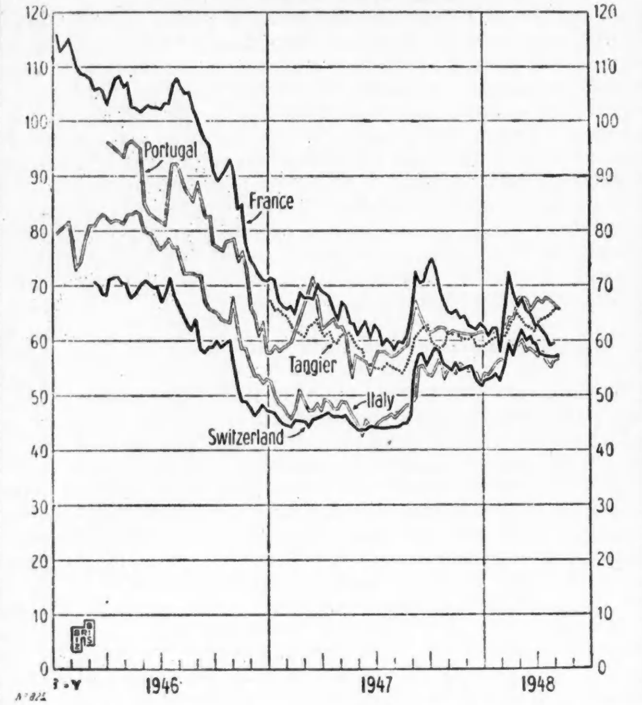


in Paris. The thought has also been advanced to form a special trade organization which would combine gold deals with the purchase of merchandise imports for South Africa.

This of course would go directly against the principles of the International Monetary Fund. Also large continental exports so arranged to South Africa might conflict with the workings of the ERP, and reduce South African imports from this country and Britain. England, it is said, is no little disturbed about such a possibility and rumor has it that to avoid such a turn of affairs, she might even support the drive for a higher gold price to help South Africa out of her gold dilemma. We cannot vouchsafe whether this is true. So far, she has lined up with the U. S., opposing any gold price boost as too inflationary.

The inofficial gold premiums paid abroad vary greatly and fluctuate constantly, reflecting the overvaluation of foreign currencies rather than the price which gold would bring in a free market in the U. S. But the drive for a free gold market has been gathering strength. Efforts in this direction overlook the fact that capital movements are under rigid control in most parts of the world and that the proceeds of American gold exported and sold in foreign premium markets could be repatriated in full only in contravention of the laws of the countries concerned. Nor should it be necessary more than to mention the havoc which freedom of private American gold exports would play with the system of par values which the International Monetary Fund, with official American cooperation, is trying so hard to maintain.

Price of Gold on Various Markets.
Free-market price given at $ rate for bank-notes, in U. S. dollars per fine ounce.



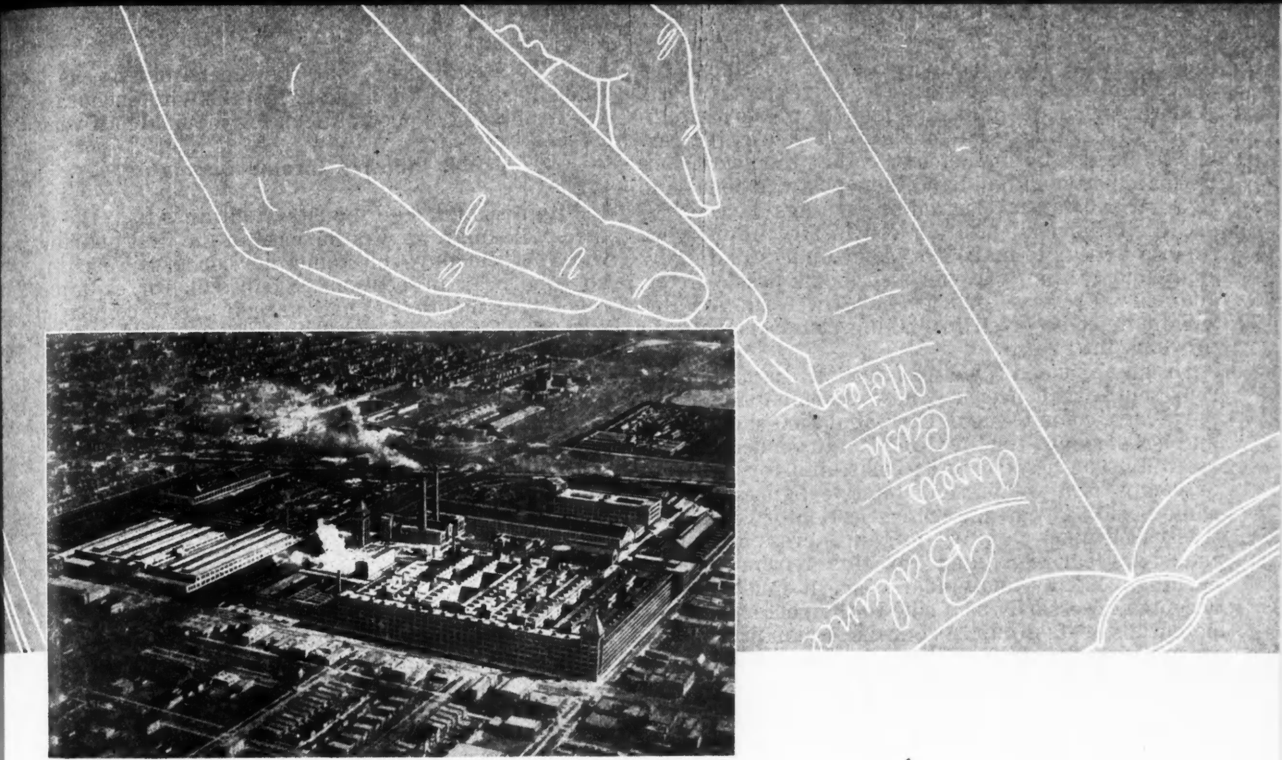
Yet gold producers, afraid that in view of the great inflationary potential at home, they will be unsuccessful in their efforts to obtain a higher gold price, turn their eyes abroad—to the lush premium markets that would enable them not only to reap higher profits but to step up gold output appreciably. Most of their arguments are hardly plausible. Most likely, a free U. S. gold market would encourage foreign producers and hoarders to send gold to the U. S. in exchange for our goods; it would greatly facilitate a further increase in American commodity prices, and it would also encourage the repatriation of American flight capital abroad. It would tend to bring out added gold supplies, perhaps even some dishoarding of gold that ultimately may depress the gold price more than many would anticipate. A higher gold price, in turn stimulating world gold production, would certainly tend to lower the excessive premiums now being paid in black markets the world over.

Return to Gold Standard Must Await Stability

By the same token, a return to the gold standard at this time would be distinctly premature; it should be postponed until the world's monetary systems are less confused. If and when such conditions are restored, the prospect is that American action in connection with our country's gold position can be tremendously helpful in stabilizing the world monetary position. The gold standard doubtless is the most satisfactory system from the standpoint of the American people as a whole, but the monetary future of gold depends on national and international solutions of financial and economic problems that cannot be solved in a hurry. It would not make sense, prior to such solutions, either to restore the gold standard or to raise the gold price.

This is particularly recognized by the International Monetary Fund which long ago manifested its interest in a stable gold price by vigorous action to abolish international premium transactions in gold, action which incidentally has been far from fully effective. There has been a good deal of circumvention, and while it is not possible to describe all sources and centers of clandestine gold movements, private markets have doubtless been fed considerably by newly-mined gold, though in some cases even monetary authorities have placed gold at the disposal of such markets. This makes it clear that until world-wide inflation is stopped, regulation of free markets and bans on the flow of gold to such markets will at best only deal with a number of symptoms of the prevalent monetary difficulties. The same, in large degree, can be said of a rise in gold price at the present juncture; taken alone, such a step could have no lasting beneficial effect apart from a bonanza for the gold producers.

Speculation in, and hoarding of gold has not been discouraged by implementation of the European Recovery Program, a sign of continuing instability of exchange rates as well as the only partial success of the Monetary Fund in stopping such activities. Despite restrictions, there remained enough loopholes. Thus last year, large international gold transactions were conducted (*Please turn to page* 501)



Significant Trends in SECOND QUARTER EARNINGS

By J. C. CLIFFORD

Corporate reports for the first half year continue to reflect the traditional impact of rather prolonged boom time conditions, as was the case in the first quarter. As usually happens at the current stage of an inflationary period, volume gains still continue to be the rule, though they may not necessarily signal increased production. Net earnings, too, remain at high levels for industry as a whole, but it begins to look as if a slightly larger proportion of concerns have passed their peak earnings capacity than was evident earlier in the year. Until more reports come in, though, the picture cannot become fully clear.

Interest in a study of the interim results is heightened by noting where large scale expansion programs have now begun to benefit this or that concern, or where managerial efficiency has retained profit margins at satisfactory levels in the face of rising costs. Equally significant are examples where slackened demand has created a downtrend in sales and earnings; or where, conversely, an impressive gain in orders has brightened a former dismal outlook. Developments during the past six months have radically changed potentials one way or the other for more than one industry, and in some cases the midyear reports of their components reveal these contrasting changes even where the bare figures fail to do so.

On balance, there seems little to indicate any letdown in the swift industrial pace during the final half year, although as hinted, managements in many sectors achieve varying success in meeting higher costs of wages and materials by firming their prices. In general, the proven ability of the steel, oil and automobile industries in this direction is likely to remain undiminished during the balance of the year, whereas the outlook is less encouraging for the motion picture industry, radio manufacturers, producers of shoes, liquor and other consumer goods. In support of this surmise, the midyear reports provide rather clear clues. On the other hand, to judge from results in the first half year, there are other groups, including the textiles, where steady progress has refuted earlier predictions of a recession in activity. With sales and earnings still far better than prewar and likely to remain so for most of 1948, these currently stable sectors in the economy have really become more significant than the few reporting either gains or decline in earnings.

In studying a substantial number of midyear reports, it is interesting to find them unusually clear of qualifying statements in stating per share earnings. In part this is of course due to their seasonal character, and allowance must be made for the customary year-end adjustments to be made in December. Apparently, however, many concerns no longer deem it necessary to set up additional inventory reserves, having made adequate provisions in former periods. In like manner the all-inclusive term " contingency reserves" has seldom appeared in recent income statements. In a few notable instances, earnings have perhaps been understated by deductions

for excessive construction costs or to allow for under-depreciation, but this has been far from the general rule. This increasing trend towards simplification of earnings statements must reflect increasing confidence by managements that their cost controls are better in hand and their postwar policies to retain a substantial portion of earnings have fortified their financial position. All in all, the midyear reports appear to make for easier understanding by shareholders than was the case in the first quarter, and where reserve policies have been altered due weight must be given in making comparisons with previous intervals.

On an appended table we have listed a number of representative concerns whose second quarter reports have come to hand. Our tabulation shows sales and net earnings for the three months ended in June as well as on a six months basis, and for purposes of comparison we present relative figures for the same period a year ago. Our selection of companies was based upon an effort to gain a cross section of industrial earnings, and for this reason the net earnings of any individual concern must not be accepted necessarily as a clue to the performance or potentials of its group. As our discussion progresses, we will briefly outline situations in various industries where the quarterly reports of several concerns not on our tabulation tend to confirm trends applicable to the group.

Higher Prices Help Steel Earnings

Price boosts in the steel industry, along with strong demand, have helped to raise sales and earnings of most concerns in this group during the June quarter. United States Steel, despite a reduction in its operating rate because of the coal strike, pushed sales up to $578 million, a gain of about 10% over the same quarter in 1947. Per share earnings on the same basis rose to $3.02 against $2.65. In the March quarter, though, net per share was $3.18. The management of Big Steel has announced that to complete $600 million of authorized additions and improvements, $328 million would still be required, of which $136 million represented excess costs not originally counted on. Heavy outlays for fixed assets have reduced net assets by $110 million in the course of a year. The outlook for the third quarter is confused by the race between rising costs and the 11¼% price rise recently put into effect. Additionally the new FOB mill price policy is bound to have an effect upon earnings, but which way remains to be seen.

Bethlehem Steel, on a basis of its present capitalization earned $1.50 per share in the June quarter compared with $1.20 in the like 1947 period, with the showing for six months advancing to $3.05 against $2.81 a year earlier. National Steel, too, for the two relative intervals ending in June reported $3.30 compared with $2.29 per share, and with six months earnings of $7.18 indicating an annual rate of better than $14.30 per share. Comparing the June quarter with that of 1947, the net earnings per share of other concerns were as follows: Inland Steel—$3.06 against $2.08, Jones & Laughlin—$2.41 and $2.02, Sharon Steel—$2.95 and $2.43, Wheeling Steel—$4.55 compared with $4.19. For the first half of 1948 net income per share of Wheeling was $8.64, creating a prospect that full year earnings may even exceed the excellent $15.15 per share achieved in 1947. It seems clear that the steel industry as a whole has ended the first six months with encouraging results and a good outlook for the final half year.

Oil Industry Income Booms

Progress of the oil industry continues to verge on the spectacular, as was the case in the first quarter, with net earnings of numerous concerns reaching all time peak proportions. Skelly Oil, for example, reports six months net per share of $18.75 compared with $7.77 in the same interval of 1947. Comparable gains by Sun Oil were $4.98 against $2.71 (after deducting $3.5 million for inadequate depreciation in the 1948 period), Socony-Vacuum—$2.28 per share in the current year and $1.31 in the 1947 interval. Shell Union made an especially significant advance in net over last year, with earnings per share of $4.15 in the 1948 first half comparing with $1.73 in 1947. In terms of total dollars this meant a gain of $32.5 million, and though a substantial portion of this was retained in the business along with other large amounts for depletion, Shell Union is reported negotiating a term loan for $250 million to meet expansion needs. Apparently the oil industry foresees an insistent and increasing demand ahead for a long period and are convinced that huge capital sums can be safely risked to implement expansion and development programs.

Increased Output Aids Automotive Companies

Consolidated net sales of General Motors Corporation for six months reached a record total of $2.2 billion, just about double the relative showing a year before. At the end of 1947 the management suggested hopes of achieving a volume of $4 billion in the current year. Barring the unforeseen this goal may be exceeded by a fairly wide margin, judging from first half year results. While output of automobiles and parts has been a major factor in General Motors' recent sales progress, the company's diversified production of diesel engines, refrigerators, etc., has substantially contributed to total volume.

While General Motors reported net earnings of $4.55 per share for the six months ended in June, a gain of about 55% over the same period in 1947, this rate was larger than a gain of 35% in volume. What partly accounted for this apparent widening of profit margins was an approximate net profit of $5.3 million derived from disposal of large blocks of shares of North American Aviation and Bendix Aviation. On the other hand, reserves for extraordinary obsolescence of buildings in the amount of $6.5 million were deducted before reporting net per share. On balance it looks as if this leading unit in the automotive industry thus far in the current year had successfully overcome the impact of rising costs by raising prices to match.

Kaiser-Frazer Corporation reported net earnings of 85 cents per share in the June quarter in contrast to 22 cents per share for the same 1947 period. Over a period of six months K-F had net income of $6.2 million after taxes compared with a loss of $2.1 million in the initial half of 1947. These figures attest to the advantage of sharply increased volume, for in the second quarter of 1948 sales of $92.7 million compared with $52.9 million in the like period of 1947. On June 30, 1948, the company's cash balances

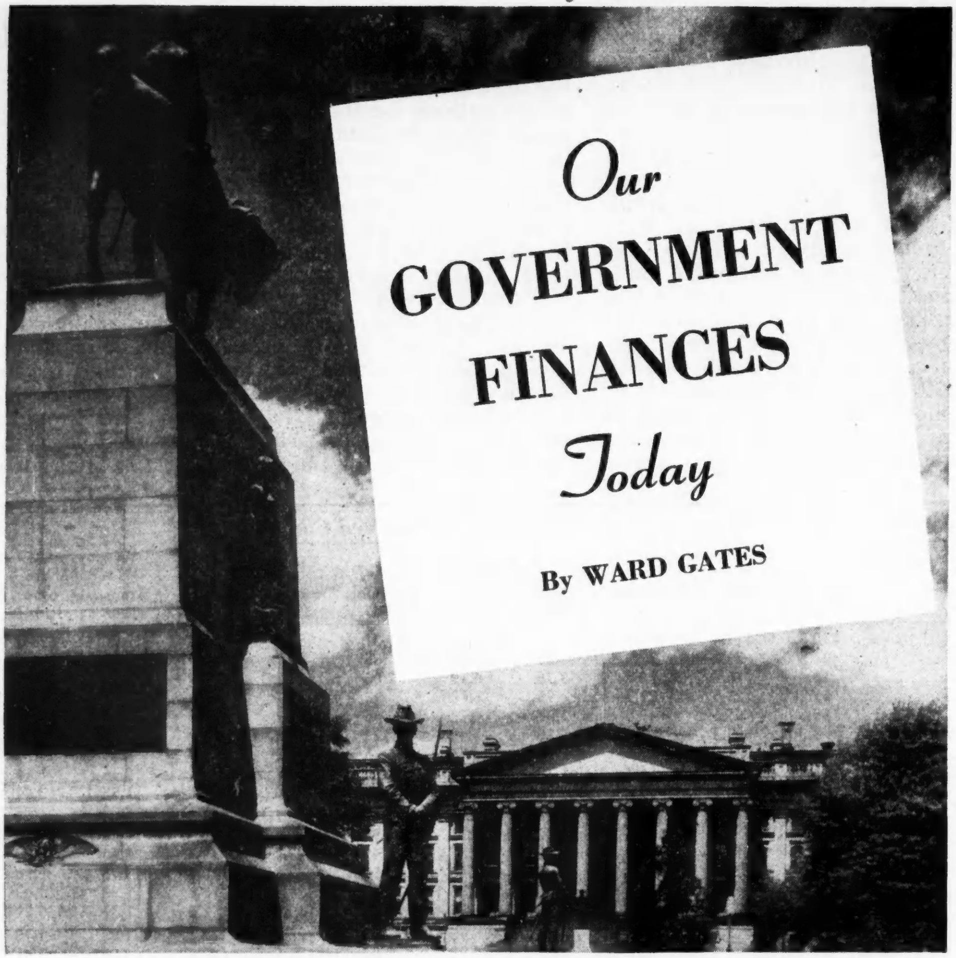
amounted to $28.9 million, reflecting a reversal of the downtrend in working capital that occurred during the formative stage of this new enterprise.

Among representatives of the chemical industry reporting uptrends in sales and earnings, E. I. du Pont de Nemours has continued to lead the way. Volume of this concern gained about 22% in the June quarter in comparison with the 1947 interval, with about the same rate applicable to the relative half year periods. Net earnings of $2.66 per share in the June quarter, though slightly above the $2.53 reported a year earlier, were disproportionate to the volume gains cited, due to a sharp rise in operating expenses and taxes. True, du Pont has distorted earnings somewhat by deducting $10.5 million for excessive construction costs in the first half, but this same amount served to reduce net earnings in the first half of 1947. It should be realized that the huge expansion program of this concern tends to shave earnings before completion, not only by provision for higher costs of construction but for abnormally high overhead involved. Then du Pont received $15 million in dividends on its General Motors stock in the first half of both 1947 and 1948. In view of the bright outlook for the automotive industry, there is a chance that du Pont's income from this source may be expanded before long.

When all midyear reports from the chemical industry have been received, it is doubtful if many will reveal such a sharp improvement in net earnings as Charles Pfizer & Co., Inc. While producers of organic chemicals characteristically enjoy satisfactory profit margins, this world's largest manufacturer of penicillin and citric acid is giving an exceptionally good account of itself. Due to greatly enlarged capacity, the company's volume rose to $24.3 million in the first half year, producing net income of about $5.5 million after taxes or 23% of sales. This brought per share earnings of $3.69 for six months, compared with $2.72 for the (*Please turn to page* 510)

Record of Quarterly and Half-Year Earnings of Selected Companies

	Net Sales ($ Million)			Net Per Share			Net Sales ($ Million)		Net Per Share	
	2nd Quar. 1948	1st Quar. 1948	2nd Quar. 1947	2nd Quar. 1948	1st Quar. 1948	2nd Quar. 1947	6 mos. 1948	6 mos. 1947	6 mos. 1948	6 mos. 1947
Allegheny Ludlum Steel	$30.8	$27.4	$28.3	$1.19	$1.01	$1.31	$58.2	$52.4	$2.20	$2.73
Air Reduction	23.5	22.2	22.1	.61	.50	.55	45.7	42.0	1.11	1.07
Amerada Petroleum	16.4	16.9	10.7	3.76	4.10	2.06	33.3	20.7	7.87	4.13
American Brake Shoe	29.2	28.5	27.3	.95	.78	.93	57.7	55.0	1.74	2.32
American Cyanamid	58.6	55.6	49.5	1.07	.78	.65	114.2	103.5	1.85	1.58
American Machine & Metals	3.0	3.4	3.6	.25	.45	.23	6.4	8.1	.70	.78
American Radiator & S.S.	56.6	51.6	47.8	.50	.48	.36	108.2	89.3	.99	.70
American Steel Foundries	21.2	19.1	14.7	1.20	1.22	.54	56.7	40.4	3.36	1.64
Atlas Powder	10.7	10.3	10.2	.96	.79	1.55	21.0	20.6	1.75	3.42
Bethlehem Steel	303.1	295.6	265.9	1.50	1.55	1.20	598.7	503.4	3.05	2.82
Barnsdall Oil	9.1	8.8	......	1.50	1.52	.99	18.0	......	3.03	1.74
Bendix Home Appliances	12.4	17.4	21.2	.85	1.57	2.45	29.8	38.4	2.43	4.79
Bigelow-Sanford Carpet	22.0	20.7	15.2	2.37	1.40	1.50	42.7	28.4	3.76	2.26
Blaw-Knox	16.2	13.7	13.9	.75	.58	.45	29.9	25.7	1.33	1.03
Budd Co.	53.7	55.3	48.0	.60	.77	.40	108.9	92.5	1.37	.89
Certain-teed Products	13.0	12.8	12.4	1.00	.95	.92	25.8	23.5	1.95	1.78
Continental Oil	79.8	79.0	55.4	3.13	2.92	2.02	158.8	102.3	6.00	3.41
Crown Cork & Seal	24.3	23.1	18.3	.83	1.21	.53	47.4	35.2	2.05	1.34
DuPont	239.1	222.2	195.9	2.66	2.46	2.53	461.3	385.7	5.11	5.13
Eaton Mfg.	32.2	30.5	22.1	3.21	3.08	1.90	62.7	45.8	6.29	3.91
General Motors	1,145.5	1,089.1	941.5	2.43	2.12	1.67	2,234.7	1,746.4	4.55	2.98
Hayes Mfg.	6.7	6.5	5.9	.87	.62	.58	20.3	17.3	2.44	1.47
Hercules Powder	32.4	33.9	32.4	1.00	1.09	1.20	66.3	69.1	2.09	2.69
Heyden Chemical	6.0	7.2	5.4	.66	.92	.45	13.2	11.3	1.58	1.03
Inland Steel	88.8	90.7	74.5	1.34	1.73	1.02	179.5	144.7	3.06	2.08
Kaiser-Frazer	92.7	79.1	52.9	.86	.50	.22	171.8	80.2	1.36	def.46
Koppers Co.	48.2	42.4	39.9	1.66	1.27	1.52	90.7	75.2	2.92	2.73
Mack Trucks	31.6	31.0	34.5	.68	.96	1.71	62.6	58.5	1.64	2.86
Minneapolis Honeywell	12.0	12.5	15.0	.56	.65	1.13	24.5	30.4	1.21	2.51
Monsanto Chemical	40.2	38.5	34.8	.89	.85	1.04	78.7	71.1	1.73	2.24
Mullins Mfg.	11.4	11.5	9.7	2.82	2.72	2.41	22.9	17.3	5.54	4.10
National Cash Register	43.1	39.6	32.6	2.18	2.04	1.62	83.1	60.5	8.09	4.98
National Gypsum	16.5	15.4	12.4	.81	.84	.67	31.9	23.9	1.49	1.40
National Supply	38.6	33.8	32.8	1.55	.73	1.37	72.5	62.3	2.29	2.47
National Steel	18.5	20.0	12.2	3.30	3.88	2.59	38.6	26.4	7.18	5.87
Pfizer (Chas.) Co.	11.5	12.8	8.4	1.75	1.94	1.20	24.4	17.7	3.70	2.72
Philco Corp.	65.9	58.6	57.7	1.44	1.25	1.70	124.6	107.9	2.68	2.80
Pittsburgh Plate Glass	66.3	66.7	66.9	.84	.75	.91	133.0	129.5	1.59	1.66
Radio Corp. of America	87.7	87.9	77.2	.31	.36	.24	175.6	153.7	.67	.52
Republic Steel	174.7	182.3	161.3	1.30	1.54	.85	357.0	317.5	2.84	2.80
Rexall Drug	38.9	43.3	42.2	def.12	.08	def.09	82.3	86.3	def.03	.04
Skelly Oil	44.6	40.9	28.7	9.62	9.13	4.79	85.5	51.8	18.75	7.77
Shell Union Oil	192.8	207.7	145.8	2.00	2.15	.92	400.6	279.8	4.15	1.73
Standard Oil of Calif.	179.4	171.8	124.9	3.11	2.85	1.72	351.2	232.2	5.97	3.14
Studebaker Corp.	92.5	91.6	64.3	1.64	1.81	.82	184.1	126.6	3.45	1.52
Tide Water Asso. Oil	91.4	94.7	71.9	1.37	1.71	.86	186.1	138.3	3.09	1.63
Union Oil of Calif.	51.0	50.9	42.0	1.80	1.62	1.02	101.7	80.2	3.42	1.73
United States Steel	578.4	556.0	533.8	3.02	3.18	2.65	1,134.4	1,008.8	6.20	6.43
Westinghouse Electric	214.6	209.8	172.2	.87	.97	.78	424.4	312.3	1.83	1.59
Youngstown Sheet & Tube	82.4	88.0	77.0	3.35	3.83	2.56	170.5	149.0	7.18	6.94



Our GOVERNMENT FINANCES Today

By WARD GATES

CURRENT STATUS AND OUTLOOK

The scope of U. S. Government finances today has a dominating effect upon our national policies of business and credit, and upon the finances of every corporation and of 145,000,000 men, women and children in this country. The continued high level of expenditures and taxes three years after the war, despite earnest efforts toward economy by a large portion of both political parties in Congress, proves how adamantine and permanent the problem has become.

So complicated has the budget grown, now comprising a document of some 1,350 pages, that most people are aware of this problem only through the heavy burden of their taxes, paid directly or through inflated living costs. Even informed people find much that is written on the subject of federal finances dull and hard to understand; moreover, they are confused by the sudden shift from a record surplus of over $8 billion in the fiscal year 1948 just closed, to an indicated deficit in the current year.

In view of the fact that government finance is everybody's business, and of the apparent turn of events now taking place, a brief analysis of certain outstanding factors may help to clarify where we stand today. This analysis will not be encyclopedic, but extremely simplified, dealing with seven practical points and, in conclusion, the need for Action and not just "Talk."

Final Treasury figures recently issued for the fiscal year ended June 30, 1948 turned out much more favorably than had been forecast in the President's budgets submitted to Congress, either in the original estimates of January 1947 or the revised estimates of January 1948.

Total net receipts of $44.7 billion were $1.5 billion above 1947, and only $1.8 billion below the wartime peak of 1945, despite the tax cuts in 1946 and 1948. They were $9.7 billion above the President's original estimate. Total expenditures of $36.3 billion were $6.2 billion below 1937, and $1.2 billion below the estimate.

This fortuitous combination of lagging expenditures and increased receipts resulted in a record surplus of $8.4 billion,—a figure unprecedented in the history of the U. S. Government, almost eight times as large as the previous peak surplus in 1927. Gratification as to this surplus, of course, must be tempered by recognition that it resulted not from economy in spending, but from continuation of taxes near the peak wartime level.

Outlook for 1948-49 Fiscal Year

These totals are before giving effect to an end-of-year bookkeeping adjustment directed by Congress, under which there was charged against the 1948 budget $3 billion of European Recovery Program expenditures to be made in fiscal 1949. Such adjustment raised the stated 1948 expenditure total to $39.3 billion and lowered the surplus to $5.4 billion; it will reduce the 1949 stated expenditures $3 billion below actual expenditures.

For the current fiscal year, the outlook is highly problematical. The President's original estimates made in January 1948 have been modified substantially by the action of Congress in lowering income tax rates this year and trimming appropriations of many departments from the amounts requested, but

at the same time increasing appropriations for certain other purposes, principally national defense and international aid.

It will probably be January 1949 before really accurate revisions of these estimates are made, and even those will be subject to further change by Congressional action in the closing half of the fiscal year. At this writing, it does not appear likely that total expenditures will be held much below $40 billion. National defense of over $12 billion is the largest item, followed by $7 billion for international aid, $6 billion for veterans' services and benefits, $5 billion interest on the public debt, and $2 billion tax refunds.

Only about 20 per cent of the total goes for all other expenditures—cost of general government, aids to agriculture, social welfare (exclusive of social security benefits financed directly by social security taxes), housing, natural resources, education, etc. Nevertheless, this comes to $8 billion or more than the entire cost of government before the war.

Total net receipts, after giving effect to $4.6 billion reduction from the tax cut this year, have been estimated at no higher than $39.5 billion, although this is understood to have been figured upon a total national income of $200 billion annually, whereas actually the national income is running considerably higher. Thus total receipts and expenditures may be approximately in balance, in contrast with the huge surplus last year. Secretary of the Treasury Snyder has warned that there may be a deficit. Much will depend upon what happens during the next several months, including the national elections, the growing war scare, and the new Congress. The 1949 totals are before giving effect to the adjustment noted above of charging $3 billion E.R.P. expenditures to fiscal 1948.

In order to provide perspective for comparison of the huge present budget with that of more normal periods in the past, the accompanying table gives a condensed summary since 1914 by five-year intervals of total receipts, total expenditures, surplus or deficit, and public debt.

Without an examination of these official figures, it is almost impossible to believe that government taxation, spending, and debt could have expanded so many-fold within the course of a single generation. The figures show the grave financial consequences of two world wars, plus the multiplying of government activities toward controlling numerous fields of business as well as the lives of the people generally.

U. S. Government Finances by Fiscal Years Ended June 30

In Billions of Dollars)

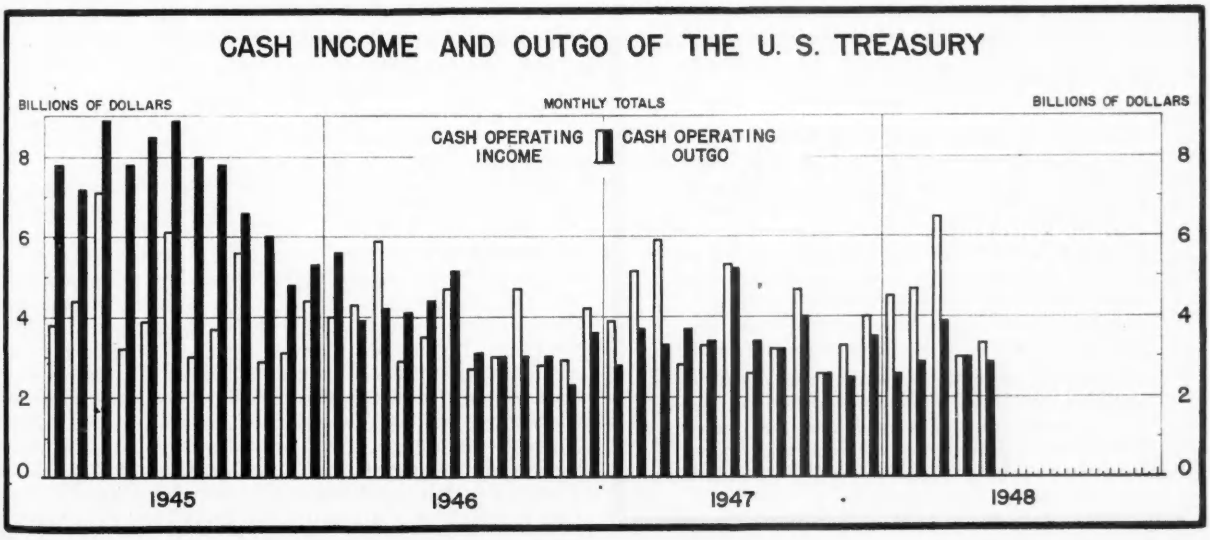
	Net Receipts	Expenditures	Surplus or Deficit	Public Debt
1914	$0.7	$0.7	$0.0	$ 1.1
1919	5.2	18.5	—13.4	25.5
1924	4.0	3.0	+ 1.0	21.3
1929	4.0	3.3	+ 0.7	16.9
1934	3.1	6.0	— 2.9	27.1
1939	5.2	9.0	— 3.9	40.4
1944	44.1	95.6	—51.4	201.0
1948*	44.7	36.3	+ 8.4	252.3
1949*	39.5	39.7	— 0.2	252.5

* Before giving effect to charge against 1948 mudget of $3 billion European Recovery Program expenditures to be made in fiscal 1949, for which the figures represent the latest available estimates.

Many persons living today have witnessed this transformation from the beginning. They can recall participating in the Liberty Loan drives in 1917, before which there was little reason for interest in government finances on the part of the public; the annual turnover of around ¾ of $1 billion in taxes (mostly internal revenue and customs) and expenditures was always in virtual balance, and the public debt (mostly in Consols and Panama Canal bonds, held by banks to secure national bank notes) was but $1 billion.

During the ensuing period the American people have learned, or eventually must have to learn, some costly lessons in public (Please turn to page 000)
costly lessons in public finance—namely, how much quicker and easier it is to increase taxes and expenditures than to reduce them. They are learning also that a huge surplus as in 1948, achieved through a fortunate underestimate of heavy tax receipts, abnormally swollen by inflated national income, and a lag in actual outlays on a multitude of appropriations, affords much less relief than if achieved through genuine economy in spending.

Each year the difference (*Please turn to page* 507)



ZONE PRICING MAY BE BACK

By E. K. T.

CONGRESS, when it returns to Washington next January, will find a large staff of experts already has prepared the evidence and spotted the witnesses with which a special committee will launch the drive to offset the effects of the Supreme Court decision in the "cement case." Result of that decision was to outlaw basing point or zone pricing under which the vendor absorbs the freight charges, to create uniform delivered prices. Senator Homer Capehart heads a special committee to make the study, prepare legislation vetoing the court decision, if it finds such a course advisable. And the committee will so find!

BUSINESS and industrial practices were placed under the Federal Trade Commission's microscope in a series of reports released late last month and the result was a batch of critical essays. Farm implements, electrical equipment cartels, and international steel cartels were the topical titles; but it was a dissertation on "the merger movement" that attracted most attention. FTC cried out for remedial legislation, writing with a heavy hand against "bigness in business" — a circumstance the regulatory body has stressed in the past as not bad in and of itself. But the commissioners have made matching reports since 1945 and congress has not seen fit to step in.

SUPPLIERS to government agencies will find federal procurement in a tailspin for the next few months. It's the result of fencing between the Administration and congress to fix the blame for high prices. The order has gone down the line not to "bull" the market, not to jack up prices by heavy procurement of short supply items. Stockpiling of critical items, including steel, are to be reduced for the remainder of the year. Military quartermasters will buy meat for overseas troops in foreign markets—Argentine, New Zealand, Australia. Army stocks are good, aided by fact that manpower hasn't reached anticipated levels. Where excess supplies exist it will be "business as usual," curtailment elsewhere.

WHIPPING BOY of the Truman campaign will be congress, but business and industry will be close behind. That's been made clear in the Presidential words to Capitol Hill. Industry was flatly charged with price gouging. Reestablishment of excess profits tax is aimed at corporation profits, as is also the suggestion that corporations can absorb wage increases without increasing prices. The idea of rationing and price control was not grounded on notions of better distribution; it was presented in a punitive attitude. Mr. Truman didn't really expect action by congress. He was merely "spreading out the tools" to begin work.

WASHINGTON SEES:

It wasn't a congressman who uttered the most significant statement to come out of the special session; it was a commissioner—Marriner S. Eccles—who blasted the effectiveness of the mid-summer night dream of President Truman that calling the lawmakers back would pay off in political capital by displaying a republican congress unwilling to work, or without working plans, contrasted with a democratic Administration geared to decisive action.

The GOP came here admitting vulnerability on only one ground: it had done nothing to beat back inflation during a period when the country had twice read, or heard, President Truman outline a program to that end.

But Eccles, long a spokesman of Administration fiscal policy, wrecked the White House plan with the succinct, shattering analysis: "It is a perfectly contradictory program that doesn't make economic sense."

For sheer explosive quality, the Eccles outburst was a masterpiece. It was carefully staged and timed; it made clear the reason for reluctance on Eccles' part to argue publicly or even comment when he was demoted to vice chairman of the Federal Reserve Bank Board, in favor of a republican. He was biding his time! It confirmed what high authorities (Eccles included) had denied when the change took place, namely, that Eccles and Secretary Snyder were feuding on national policy.

Effort will be made by party campaigners to establish that Eccles' words were spoken in pique and personal disappointment. But the charge came from a custodian of the facts and figures, which now will be available to the GOP speakers.

As We Go To Press

There's no hope for progress on the general tax revision bill during the special session of congress. This is one the republicans were caught with in their hectic rush to adjournment of the regular session. In an effort to mark up one more point for progress, the GOP house leadership jammed through an admittedly poorly written, wholly inadequate measure, knowing the senate schedule would not permit of concurrence, and believing -- as then seemed a certainty -- there would be no special session. Expected result was time to rewrite and resubmit.

There is substantial support for the bill (H.R. 6712) in its present form. That backing comes from members who have had their own pet sections included in the draft. They're using the argument that this is a good "start" and it should be made. But the leaders have adopted a policy against piecemeal legislating and are turning a deaf ear. The senate finance committee will do the job of pigeonholing.

When the extraordinary session of congress had reached the half-way mark of the already brief life Senator Taft, et als, had marked out for it, some things began to come into clear focus. In the first week, none could say with absolute certainty whether the lawmakers would settle down to a long session -- long enough, that is, to do a real job of legislating; shadow box for a few days or a week and then quit in real or feigned disgust, and go home; or clear up pressing business and points in the Truman program on which agreement was in sight.

Soon it was evident that no real attempt would be made to wade into the White House suggestions except to the extent of attempting to discredit most of them, "make a start" on others and write off the harm that can come with a delay of four months "until the New Administration comes in." Both parties agree no reasonable person could expect a special session to enact into law the broad principles enunciated, only in outline, in the democratic and republican platforms. It would take longer merely to write and introduce the bills.

As for the psychological effect of the special session and the placing of the GOP "on the spot," it isn't working out to Mr. Truman's advantage to the extent he had hoped. Not nearly so. First of all, the republicans have been pounding on the point that the call was politically inspired, was announced at an intensely partisan political gathering in Philadelphia. They are doing a good job of convincing the public that good laws and good government don't flourish in that atmosphere.

Second, the majority is damning the special session with the words of the highest placed democrat now in congress. Senator Alben Barkley, democratic leader and the vice presidential nominee, delivered the most telling criticism of a special session just before the regular meeting ended. It would bring no good, much harm; it would invite political bickering, partisan action, he warned.

Third, Mr. Truman is being criticized -- privately, of course -- by members of his own party who believe they could do themselves more political good back in their district, mending their fences, seeing and being seen by their constituents. There are few places where sitting democrats are sure of re-election, and many where they are engaged in fights for political life where formerly they won handily. Even some of the southern "career congressmen" are worried over the pull from both directions, the republican rivals on the one hand, and on the other by the Wallace candidates for congress who can't be elected themselves, but who might get enough votes to cause defeat of an incumbent.

Organized labor is making ready to fashion an argument in its favor out of the demise of the basing price system in the heavy industries. This, it will be argued, is tantamount to a "hidden price increase" to the extent that it reduces the cost of sales. Actually, says the AUW-CIO, pay increases have been good business for industry -- "the wage boosts come out of the consumers, not out of profits."

When President Truman issued the call for a special session of congress, republicans saw, in addition to the obvious political motive, a design to broaden the democrats opportunity for free press and radio play on campaign material. They reasoned the democratic party is financially "broke." It didn't take long for evidence of the truth of their change to appear. The Presidential message to congress was made available to reporters three hours before the time for delivery. Ordinarily copies are withheld until actual reading began.

Purpose of this strategem was obvious. Many important newspapers publish their best-read editions at noon or in early afternoon. Earlier release of the text permitted press associations to move the copy in time to "make" these editions. Radio newscasters reached their largest daytime audiences with details which they had abundant time to pick from the text. It worked so well from a democratic standpoint that it will be repeated in various versions.

Little noticed happenings often prove accurate indicators of a state of mind. And from one of such happenings comes testimony that President Truman's decision to order a special session was of very recent origin. Here's the proof: soon after adjournment of the regular session, the President made a number of recess appointments of individuals whose nominations had not been acted upon by the senate. Ordinarily the incumbents could expect to hold office at least until the next session convenes in January. Under federal law, recess appointees hold office for 40 days or during the life of the special session, whichever is shorter. So, the President's action has placed the political heads of several of his favorites earlier on the block.

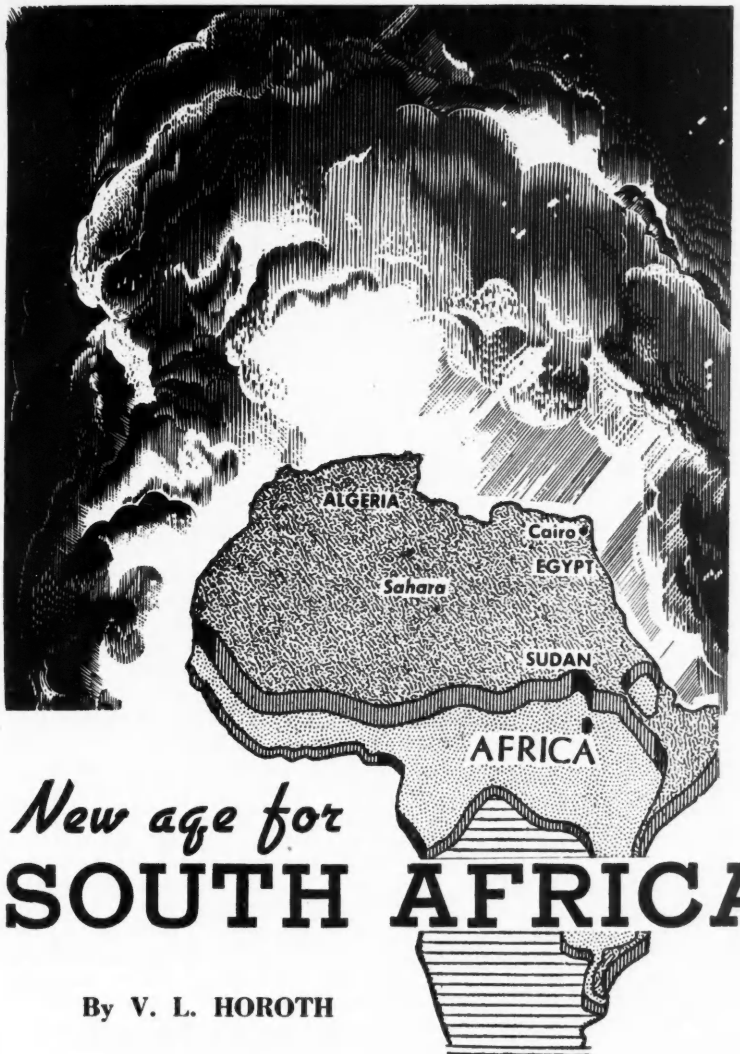
Facts for Taft-Hartley Law repeal advocates to overcome: as against an average of 395 strikes each month involving 337,000 workers per month, and a monthly loss of 7,200,000 man-days prior to the enactment of the law -- since its passage there have been only 209 strikes per month involving 135,000 workers monthly, and only 2,800,000 monthly man-days have been lost.

Warning by Federal Deposit Insurance Corporation that banks are nearing the danger line in their real estate financing, brought quick challenge from the real estate lobby. FDIC noted that realty loans of the 13,500 insured commercial banks doubled in the last two years. This, said Chairman Maple T. Harl "indicates the necessity for caution." About one-half the 9 billion dollars on real estate loans at the end of 1947 was placed during a period of high prices, on long terms, and could be seriously affected by a falling market, ran the cautioning note.

The realtors national office made this reply: We cannot understand why a bank whose public obligation is to serve business interest and the development of communities (including real estate financing) is in a condition necessitating a warning by a government agency when only 6 per cent of the total assets are in real estate financing and only 4.5 per cent in real estate financing not guaranteed by the government."

With its work scheduled to be wound up Feb. 28, 1949, War Assets Administration is pointing with satisfaction to the fact that the great bulk of the huge distribution has been handled without the serious impact upon private business which many had feared. Materials costing more than 23 billion dollars have been sold, and about 5 billion dollars worth remain to go on the market.

The system of priorities which channeled sales to federal agencies, veterans, nonprofit institutions and a few other classes will go out of existence Aug. 31. That is expected to begin a new spurt of disposals which may leave WAA with relatively little to sell in its final months and liquidation of the agency will be prompt.



New age for SOUTH AFRICA

By V. L. HOROTH

The reports received from South Africa in the past few months have been getting seemingly more inconsistent and confusing. On one hand, they mention an unprecedented business boom, an unusual degree of capital investment in new industrial plants and the expansion of old ones, and an inflow of capital so heavy that restrictions had to be put upon it.

On the other hand, the reports make mention of the crisis in the gold mining industry, which is the country's chief economic mainstay, of labor troubles and labor shortages, of a discouraging drift of the Union away from the Empire under the new Government, and, last but not least, of the possibility of the devaluation before the end of the year of the South African pound—"the hardest" of the sterling area currencies.

How do all these reports fit together? One might summarize them by saying that the Union" would like to have her cake and eat it too." The South Africans would naturally like to see their boom continue; they would like to see their country be an industrial workshop for the neighbouring African areas, for the simple reason that such a diversification would be healthy.

But they would also like to see the gold mining industry prosperous, able to exploit vast new reefs in the Orange Free State. Gold mining has not been a fly-by-night enterprise in South Africa; it is a real manufacturing-processing industry—processing low-grade gold-bearing rock; it is an industry that becomes more scientific and more complex the poorer the gold-bearing reef becomes. In the past, this industry has been a unique regulator of the South African economy. When a depression lowered mining costs, the gold industry tended to expand, provide employment and funds; when boom sent the costs up, the industry slowed down.

An Important Customer of the United States

Can the South Africans "have their cake and eat it to?" Can they become more secure as "an industrial workshop," and at the same time keep the gold mining industry going full blast? Is the devaluation of the South African pound a sure-bet recipe that will bring all this about? This should be of great interest to any American business man not only because of the vast mutual trade and important investments, but mainly because South Africa is a new, growing country that is likely to look to us rather than to Great Britain—as she did in the past—for guidance and encouragement.

South Africa ranked among our best customers already before the war. Being a relatively young country, as we are, South Africa has always shown a preference for many of our products, such as, for example ,our automobiles. In 1947, the South Africans bought here goods worth $414 million—over six times as much as they used to buy before the war. During the first five months of this year, our exports to South Africa were at an unprecedented annual rate of over $500. Our leading exports, as will be seen from the accompanying table, were automobiles, industrial and mining machinery, steel manufactures, chemicals, and drugs. The Union was also one of our best markets for cotton textiles, lumber, and petroleum products.

South Africa Sends Us Various Products

Excluding some $411 million worth of gold which we imported in 1947, South Africa sent us merchandise valued at about $111 million, consisting largely of diamonds, raw wool, hides, manganese, chrome ore, frozen lobsters, and wattle extract. We are expected to be the principal market for vermiculite—

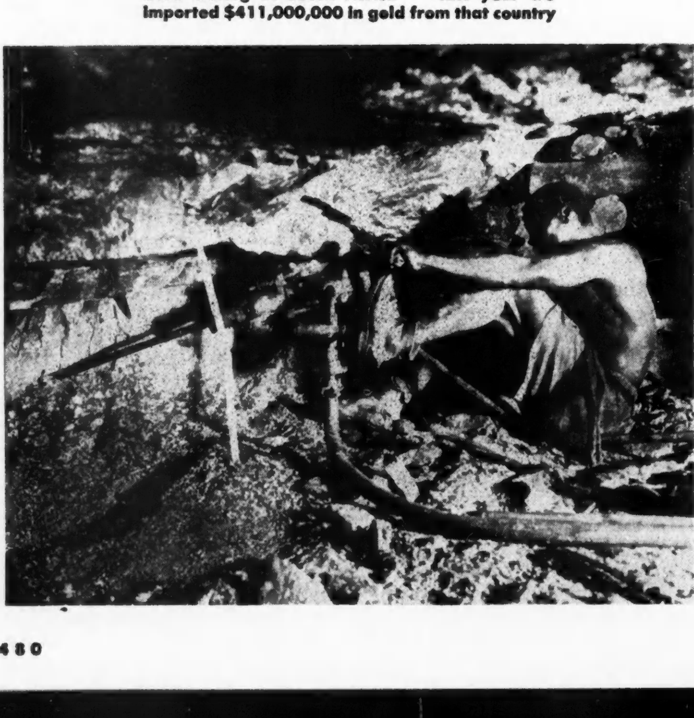
	Gold Output (000,000$)	Working Costs per ton of ore		Working Costs per oz. of gold		Working Profits per ton		Dividends per ton		Price of gold		Index of 26 gold mining shares Jan.'31=100
1936	385	18s	9s	82s	3d	13s	4d	7s	2d	140s	3d	298
1939	434	19	5	91	8	12	3	6	10	154	5	254
1941	486	21	2	102	6	13	7	5	9	168	....	235
1942	476	21	2	104	4	13	0	5	3	168	....	202
1943	431	21	11	106	11	12	8	5	1	168	....	215
1944	413	22	10	112	11	11	3	4	8	168	....	206
1945	413	23	9	118	10	10	10	4	5	170	5	205
1946	403	25	7	127	4	9	3	4	9	172	3	202
1947	375	26	7	133	4	8	0	4	5	172	3	163
1948												
Jan.	35	25	11	129	11	8	8	....	....	172	3	....
Feb.	32	26	4	131	6	8	4	....	....	172	3	....
March	34	26	7	131	5	8	6	....	....	172	3	....
April	34	26	4	131	0	8	6	....	....	172	3	....
May	34	26	1	130	8	8	6	....	....	172	3	....

Table: *Gold Mining Industry in South Africa: Operating Statistics*

an insulating and sound-proofing material used in plaster and concrete—of which some of the largest deposits in the world have been discovered in South Africa. According to an official disclosure, the country has also one of the world's largest and richest uranium deposits.

The United States has likewise been a heavy investor in South Africa. American investments—estimated at $75 million before the war, but unquestionably much larger by this time—were divided among the mining properties, gold and copper, and the manufacturing industries. Since the end of the war, American capital has been going into the following fields: petroleum refining, hosiery, textiles, refrigeration, and stone quarrying. Five automobile companies and three tire making companies are reported either expanding or building new plants in the Union.

Gold mining in South Africa — last year we imported $411,000,000 in gold from that country



Some of the Union's present economic difficulties, especially with respect to the heavy deficit in her international payments with the United States, are directly traceable to the unprecedented business boom. The Union has come out of the war in probably better shape than any other part of the British Empire. She repaid he entire external debt, and accumulated over $4 billion in gold and foreign exchange reserves. The internal debt has remained relatively small, and hence the tax burden is light. According to a calculation made by the National Advisory Council, the per capita tax burden was in 1946 only $45 as against $193 for Canada and $313 for the United States. Light taxes and investment possibilities have been, incidentally, the two chief factors that have induced a heavy capital inflow from Great Britain, Switzerland, Sweden, Belgium, and even the United States (the total has been estimated at about $750 million).

While the war was highly unpopular with the Dutch-speaking South Africans, they did not object to making money out of it. South Africa supplied the Allies not only with vast quantities of strategic materials (diamonds, manganese, chrome, ore, etc.) but also did a good job in assembling and equipping armored cars, and in supplying the armies with shoes, garments, blankets, and other equipment made out of local raw materials. Moreover, since many manufactured products were unobtainable from abroad, South Africa started to make them. In 1942 alone, for example, the manufacturing of some 342 new products was introducted.

Since the war, with new capital plentiful and equipment available, the industrial expansion has been accelerated. Over 2,000 new companies were organized in 1945; the figure jumped to 3,800 in 1946, and in 1947 it came to nearly 4,000, the capital of the new enterprises having been estimated at about $700 million. "In the Union, you can never plan too big" has become a slogan of the booster element. The country has some big plans for the future: A further expansion of the steel industry, coal liquefaction plants, new irrigation projects, and a vast program of rural electrification.

The unprecedented business boom and industrial expansion have not remained without effects on the Union's economy. In the first place, there has been a rise in costs and prices, though not anywhere as steep as in the United States. Another important development has

United States Imports from South Africa
(in millions of dollars)
U. S. Statistics

	1938	1945	1946
Diamonds, total	10.0	60.2	71.4
Wool, unmanufactured	0.3	14.1	43.0
Lamb, sheep and goat skin furs	1.6	15.4	18.5
Hides and skins, raw	1.1	3.8	4.4
Manganese ore	0.1	2.5	4.1
Chrome ore	0.8	1.1	1.8
Copper, crude and semi-manufactured	0.2	1.4	1.2
Wattle extract and bark	0.2	1.7	1.6
Lobsters, not canned	0.2	0.2	1.1
Ostrich feathers	0.1	0.3	0.7
All other products	1.4	3.1	2.8
Total, general exports	16.0	103.8	150.6

been the shortage of labor which hit the gold mining industry particularly hard. A great many mine employees, both European and native, have shifted their employment to the rapidly expanding manufacturing industries which could pay better wages for the simple reason that their products have not sold at fixed prices. Migrant workers are likewise harder to get. The reason? They can get more money for the same amount of work; hence having only few wants (we might add the facetious remark that owing to an oversupply, the price of native brides has remained unchanged), they work less frequently and enjoy longer periods of leisure.

The third major development has to do with the deficit in the Union's international payments with the United States. Although the largest producer of gold in the world, the Union has been buying here and in Canada so heavily that it has run out of bullion. By the end of May 1948, the gold reserves of the central bank were down to $388 million from nearly $1,100 million in May 1946. A gold loan of $320 million given to Great Britain early this year has speeded up the drain.

Rising costs and the labor shortage have hit the gold mines which owing to the fact that they receive a fixed price for their product, cannot successfully compete with those industries which can pass wage increases on to the consumer. The attached table on operating statistics shows what has happened since 1941, the peak production year, when gold worth $486 million was extracted. The working costs per ounce of gold rose from about 102 shillings in 1941 to 131 shillings in the Spring of this year. In the same period, the labor force fell off by some 10 per cent in the case of Europeans, and over 20 per cent in the case of natives.

The result of these developments was the halving of working profits. The aggregate of dividends paid, which was nearly $188 million in1941, declined to $45 million in 1947, the lowest figure since 1932. At the same time, Union revenues from gold mining dropped from £27.5 million to an estimated £6.4 million.

The Union Government has attempted to alleviate the situation. In February 1947, the wartime imposed tax, absorbing on an average about 22 per cent of the total amount realized from gold sales, was abolished and replaced by a new tax which reduced the taxation to 7 per cent and also made it possible to speed up charge-offs. Industry has also tackled the problem. Efforts are being made to lower working costs by applying new methods, but, according to Mr. F. A. Unger, the President of the Transvaal Chamber of Mines, the prospects are none too bright: "The engineers sent to the United States to investigate a still further mechanization of mines confirm that mining conditions in South African fields, unlike those in most other parts of the world, do not readily lend themselves to the introduction of new mechanical methods and the best that can be hoped for in this respect is a gradual and more efficient development of many and varied forms of mechanization that have already been introduced.

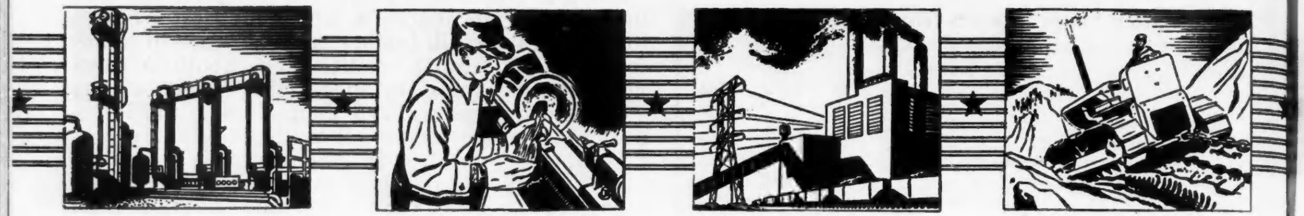
Further tax concessions are expected to be introduced in the Union budget next month. But that is about all that the gold mining companies can hope for. Any further attempt to deflate costs, as for example by lowering heavy subsidies on food production to the farmers, is likely to come to naught because the new Malan Government came to power largely with the votes of the rural population. That is why it is becoming more and more possible that the way out will be sought either through a subsidy to gold producers or the devaluation of the pound. According to an unconfirmed report, the mines are already seeking the International Monetary Fund's permission to raise the present price of gold to 172sh 3d. Their hopes have been raised by the Southern Rhodesian Government's decision to grant a subsidy, apparently with the Fund's approval.

Neither the devaluation of the pound nor the bonus will solve the gold producers' problem, however. It will enable them to bid for labor by increasing wage rates, raise their working profits per ton, and add a few million tons to their workable ore reserves. But it is also likely to speed up inflation in South Africa and thus be of no benefit to anybody. To bring up their production of gold to the 1941 level, the gold mines will need anywhere up to 100,000 more workers—lost during the past six years to the manufacturing industries and other mines (copper, coal, etc.). The problem is where to get a labor force of that size. One answer is increased immigration from Europe. In 1947, some 25,000 people immigrated to the Union and this year about 12,000 are expected to arrive.

The heart of the problem is to get more migratory workers to come down from the nearby African countries, but this cannot be done without certain social and even political changes, or without educating the natives. However, that is what a certain white element in (*Please turn to page* 506)

United States Exports to South Africa
(in millions of dollars)
U. S. Statistics

	1938	1945	1946
Automobiles, parts and accessories	19.1	4.1	26.1
Electrical machinery and apparatus	7.5	3.7	9.8
Industrial machinery	7.7	8.9	15.8
Agricultural machinery and implements	4.5	6.6	7.0
Petroleum and products	4.3	4.4	8.7
Iron and steel—mill products	3.1	16.5	7.5
Iron and steel—advanced manufacturers	1.6	3.6	7.8
Cotton manufactures	1.5	11.9	22.2
Synthetic fibers and manufactures	1.5	11.1	20.5
Chemicals and related products	2.4	7.9	10.5
Sawmill products	.9	1.7	4.1
Paper and manufactures	1.0	4.0	5.1
Vegetable food products	.7	1.1	10.2
Rubber and manufactures	.9	5.6	3.1
All other products	13.4	40.0	69.0
Total including reexports	70.1	131.1	227.4



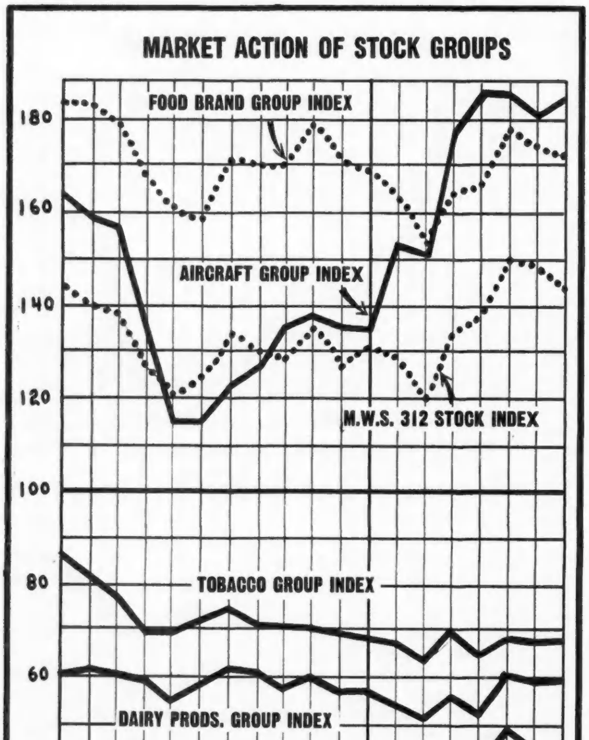
1948 Special Re-appraisals of Values, Earnings and Dividend Forecasts

★ ★ ★

Prospects and Ratings for Aircrafts, Paper Shares, Tobaccos, Foods, Dairy Products and Meat Packers

Part I

American business enters the second half of the year in the hope that there will be no marked let-down in general economic activity this year. Within this broad premise, however, business is conscious of numerous cross currents affecting the outlook for various industries. In some lines, demand conditions are such as to assure continued high-level operations and earnings. In others, the return to buyer's markets creates increasingly competitive conditions while mounting consumer resistance to high prices is having similar effect elsewhere. Some industries will benefit from ERP and preparedness spending; other will not. Some face new shortages hampering production while others, better situated, can continue peak operations. All of which can vitally affect sales and earnings potentials.

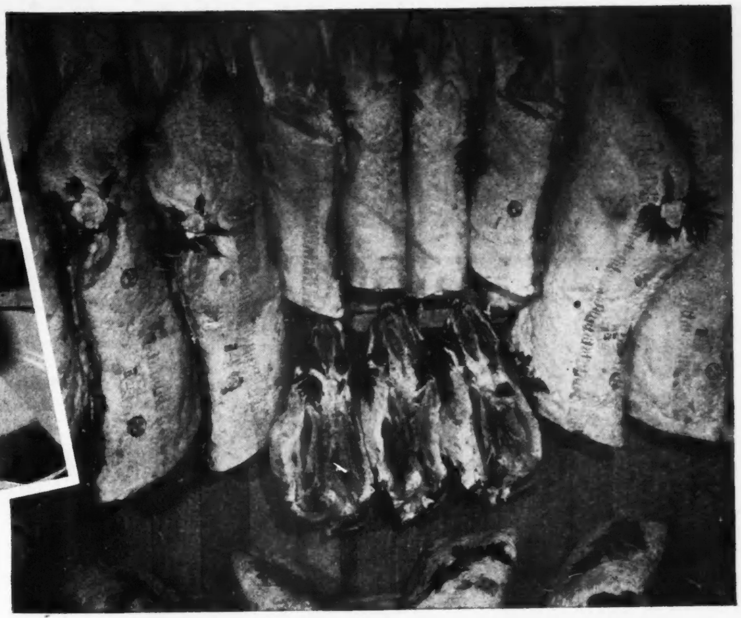


To establish and maintain a constructive investment program under current and prospective conditions, close and continued scrutiny and interpretation of changing trends is a prime requisite. Only by recourse to reliable facts and trained judgment can the investor protect his position.

To assist our readers in arriving at sound investment decisions, The Magazine of Wall Street presents its Security Appraisals and Dividend Forecasts at six months intervals, in addition to its regular coverage of important developments. By this method, the maximum number of industries are periodically reviewed on the basis of all available information, supplemented by statistical data for ready comparisons. Additionally, brief comments on the status of each company listed are presented.

The key to our ratings of investment quality and current earnings trends of the individual stocks—the last column in the tables preceding our comments—is as follows: A+, Top Quality; A, High Grade; B, Good; C+, Fair; C, Marginal. The accompanying numerals indicate current earnings trends thus: 1—Upward; 2—Steady; 3—Downward. For example, A1 denotes a stock of high grade investment quality with an upward earnings trend.

Stocks marked with a W in the tabulations are recommended for income return. Issues regarded as having above average appreciation potentials are denoted by the letter X. *Purchases for appreciation should of course be timed with the trend and investment advice presented in the A. T. Miller market analysis in every issue of this publication.*

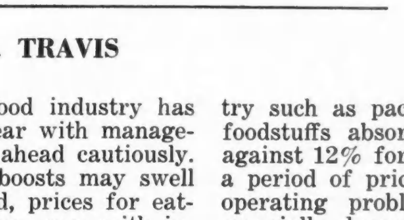


Outlook for FOODS *in Second Half*

By H. F. TRAVIS

The highly diversified food industry has started the second half of the year with managements generally eyeing the road ahead cautiously. While the third round of wage boosts may swell income available to purchase food, prices for eatables recently spiralled higher than ever, with indications that some of them may further advance. It is true that consumers are still spending a larger share of disposable income for their table needs, but signs are strong that average householders are being forced to revise their marketing policies. Because of a rather steady downtrend in profit margins and the necessity of carrying inventories at higher dollar values, the food processors are none too confident about their earnings prospects during the intermediate term, though in exceptional cases the situation differs.

Now that our domestic crops are well assured of above average proportions in the current year and foreign agricultures have substantially increased their output, the natural laws of demand and supply point to an approaching time when food prices should recede. While Government support at the farm level will create a floor, there is plenty of room for price recessions in many agricultural commodities before this artificial barrier can be reached. Numerous experts are predicting that this downtrend must become evident during coming months when surplus stocks begin to pile up, after giving due weight to the heavy absorption of foods by the European Relief Program.



It might be thought that food processors should benefit rather than otherwise, if raw material prices were to come down. This surmise has a measure of truth for some divisions in the industry such as packaged foods, for outlays for raw foodstuffs absorb about 60% of operating costs against 12% for wages. On the other hand, during a period of price readjustment on the down side, operating problems are temporarily intensified, especially depending upon the rate of turnover.

When commodity prices start to drop, the decline sometimes is at a rapid pace, as happened about a year ago with wheat. If food manufacturers at such a time are carrying heavy inventories, these are often hard to unload because distributors are reluctant to place orders until the air clears. When the pipelines become fairly well reduced, however, buying starts up again substantially at the new price levels established. It is obvious, accordingly, that some considerable inventory losses might be incurred before very long, though after an interval, well established concerns could be expected to give a good account of themselves.

Meanwhile the uptrend in food prices to current peak levels seems to have outstripped the net earnings gains of numerous food processors. Intense competition among popular brands has precluded adequate price advances to offset heavy promotional expenses and a sharp rise in freight rates. Hence profit margins of many concerns have been steadily squeezed for sev-

eral years past. Where some of these enterprises enjoyed net profit margins of 4.6% in prewar, a large group of concerns in this field earned only 3.5% on their sales in 1947 and fear that the percentages may decline to 3% in 1948. While large volume might bring fair dollar profits none the less, this factor will not prove to be a widespread advantage, to judge from a good many divergent interim reports that are now coming to hand. The present outlook suggests that earnings of the food industry as a whole may for 1948 be somewhat less than in 1947, although the experience of some concerns may run counter to the trend and some branches of the industry prove more fortunate than others.

In order to assist our readers in attaining a clear understanding of the current status and outlook for the various units in the food industry, we append some statistics that warrant study. The tabulation presented embrases numerous important con-

Pertinent Statistics on Leading Food Processors

	Net Per Share 1946	Net Per Share 1947	Net Per Share Interim 1948	Net Current Assets ($ Million)	Inventories ($ Million)	Recent Price	1947 Div.	Price-Earnings Ratio	Investment Rating	COMMENTS
Armour & Co.	$3.71	$4.85		$153.4	$175.2	$13	Nil	2.7	C+2	Heavy sales and high prices continuing but partially offset by narrower margins. Long strike in second quarter may reduce full year earnings somewhat but 30 cents quarterly dividend probably secure.
Beatrice Foods W	10.03 b	6.39 b	$1.23 May 31 quar.	15.9	4.5	36	$3.50	5.6	A2	Third ranking dairy with established Midwest trade. Outlook favorable. Slight uptrend in earnings assures dividend stability.
Beechnut Packing	1.73	3.62	1.73 6 mos. June 30	21.9	18.1	37	2.07	10.2	A1	Leading producer of food specialties and chewing gum. Net earnings higher than a year ago. Improvement in dividend rate or extras possible.
Best Foods W	2.06	3.53	4.58 9 mos. Mar. 31	23.1	7.0	34	2.20	9.6	C+1	Strongly entrenched in packaged foods field. Earnings trend upward. Semi-annual 50 cents dividends with sizable extras likely to be continued.
Borden Co.	4.64	4.61		89.5	48.9	42	2.55	9.1	A1	Outlook favors moderately larger earnings by this second largest dairy, though high costs offsetting price gains. No change in dividend rate anticipated.
California Packing X	9.58 b	10.60 b		29.8	36.3	38	1.50	3.6	B2	Profits from salmon pack tend to hold over-all earnings at fair level. Sales of canned fruits and vegetables continue large. Above average profits reflected by recent declration of 25 cents extra dividend.
Clinton Industries	4.77	4.88	def.42 Mar. 31 quar.	11.4	5.8	27	2.60	5.5	B3	Lower demand for corn products likely to reduce current year's volume and earnings. But conservative 20 cents monthly dividend should not be endangered.
Consolidated Grocers	3.09	3.86	2.07 36 wks. Mar. 6	15.3	21.4	16	1.25	4.1	C+3	Largest wholesale grocer. High prices holding volume up but earnings rather variable due to volatile commodity markets and rising expenses. Liberal dividend policies at present.
Continental Baking	5.69	3.87	2.33 26 wks. June 26	10.8	9.5	17	.75	4.4	C+1	Dominant bread baker with fine growth record. Good cost controls holding earnings steady but competition may soon create problems. Dividend seems safe.
Corn Products Ref.	4.71	6.07	1.48 6 mos. June 30	44.8	12.8	63	3.00	10.4	B3	High corn costs plus shrinking demand creating downtrend in volume and profits from abnormally high levels, but long dividend record lends confidence in stability.
Cream of Wheat	2.46	2.02	.64 6 mos. June 30	3.9	1.0	24	1.60	11.8	C+2	Long established business but reliance on a single item precludes diversification. Moderately lower earnings possible in near term, but ample coverage of current dividend indicated.
Cudahy Packing	4.06	4.32		40.4	47.6	11	.81	2.5	B2	1948 volume and profits handicapped by spring strike, but current above average sales indicate satisfactory progress. Conservative dividend appears stable.
General Baking	2.09	1.31	.74 6 mos. June 30	8.9	7.9	11	.60	8.4	C+1	Operates plants in 78 cities. For 20 years has paid dividends backed by consistent earnings. Current uptrend in net assures stability.
General Foods W	3.79	3.19	2.41 6 mos. June 30	109.1	100.4	40	2.00	12.5	B1	A leading producer of food and grocery products, with numerous well established brands. Unbroken dividend record since 1922. Some improvement in dividend possible later.
General Mills	2.91	3.91	5.83 12 mos. May 31	57.9	26.6	48	2.25	12.3	A1	Largest flour miller, enjoying above average prosperity. Oxercapacity in industry clouds longer term outlook, but current earnings warrant liberal dividend policies.
Heinz, H. J.	4.14 b	3.32 b		52.6	48.4	38	1.80	11.4	A2	Strongly entrenched producer of "57 Varieties." Volume continues large but slight downtrend in earnings indicated. Conservative dividend amply earned.

b—Fiscal years ended in 1947 and 1948. e—9 months to November 30. c—Plus 10% stock.

cerns engaged in various forms of food processing, including meat packers, canners, millers, manufacturers of corn products, fruit and vegetable packers. Comparable sales and earnings are shown for 1946 and 1947, along with the latest reported interim earnings, inventory positions and share prices. While our general discussion must necessarily be confined to the various groups rather than to individual concerns, we have briefly commented in our table upon the outlook and dividend potentials of the various companies.

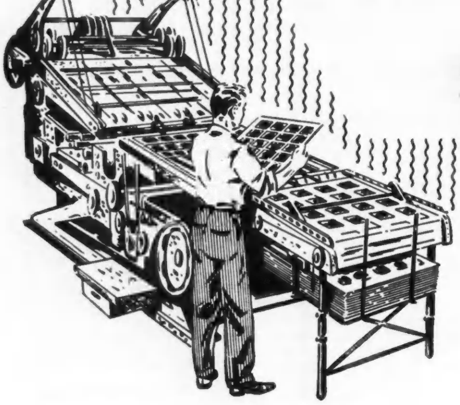
Producers of corn sugar and syrups during the first half year have experienced a declining demand due to increased competition from products made from beet and cane sugar. During the first quarter, the corn grind fell off by about 27% and undoubtedly has continued at an equally low level since then. Since, to sustain volume, it was necessary to reduce prices, though corn prices remained relatively high, a squeeze (*Please turn to page* 502)

Pertinent Statistics on Leading Food Processors (contd.)

	Net Per Share 1946	Net Per Share 1947	Net Per Share Interim 1948	Net Current Assets ($ Million)	Inventories ($ Million)	Recent Price	1947 Div.	Price-Earnings Ratio	Investment Rating	COMMENTS
Hunt Foods	8.50e	5.51		18.9	15.2	15	1.00	2.7	C+3	Sharp decline in earnings last year due to smaller sales and heavy writedowns. Second half results could show some improvement. No change in dividend probable.
Hygrade Food Pr.	$18.15	$3.41		$4.8	$4.7	$20	$1.75	5.9	C+3	Important producer of foods and meats. Lower sales and earnings probable compared with 1947. Irregular dividends indicated.
Libby, McN. & Libby	1.36b	1.79b		40.7	28.5	10	1.00	5.6	C+2	Well entrenched canner of various foods. 1947 uptrend in sales and earnings likely to hold in current year. Further extra dividends may be in store.
Morrell, John	2.63	3.61		19.4	13.4	25	1.43	6.9	B2	Large and experienced Midwest meat packer, with good dividend record. Current impressive earnings likely to continue, as well as liberal dividends.
National Biscuit W	2.45	3.37	.79 June 30 quar.	67.9	43.1	29	1.50	8.6	B3	Though 6 months earnings slightly lower, the management has expressed optimism over 1948-49 potentials. A half century of unbroken dividends attests to good record.
National Dairy Prod. W	4.86	3.69		90.2	72.1	30	1.80	8.1	A1	Increasing volume but somewhat lower net earnings show impact of rising costs. Improved operating methods likely to steady earnings in 1948. Dividend should remain unchanged.
Penick & Ford, Ltd.	3.13	4.52	.94 6 mos. June 30	8.0	5.7	31	3.17	6.9	B2	Lower sales, high grain costs and price reductions cut earnings in first quarter sharply. But strong finances may support dividend stability.
Pet Milk	3.54	5.79	def1.73 Mar. 31 quar.	12.7	8.4	27	1.00	4.7	B3	Large sales of evaporated milk have brought sizable earnings gains that should hold in current year. Retirement of second preferred and expansion needs could preclude dividend improvement.
Pillsbury Mills	7.73b	6.13b		22.8	24.3	33	2.30	5.4	B2	Record earnings of last year may not be equalled in 1948, though should be very satisfactory. Hedging of grain purchases lessens inventory hazards. Dividend should continue on current basis.
Purity Bakeries	4.30	4.06	1.37 16 wks. Apr. 17	6.6	3.4	32	2.55	7.9	B1	Despite moderate upturn in net in first quarter, rising costs likely to hold full year showing around 1947 level. No change in dividend indicated.
Standard Brands	4.18	2.32	1.46 6 mos. June 30	67.8	67.5	27	2.00	11.6	C+2	Though 1947 earnings sharply lower than the previous year, reversal of the trend indicated for 1948. Strong finances assure dividend continuity.
Stokely Van Camp X	5.32	7.02		23.6	21.1	14	1.00c	2.0	C+2	1948 sales and profits may recede moderately fro mprevious year's level, but satisfactory showing fairly well assured. Net per share should amply cover conservative dividend.
Sunshine Biscuits	6.23	6.02	3.23 6 mos. June 30	16.6	14.1	40	3.00	6.7	B2	Higher costs tending to narrow margins on larger sales, but 1948 earnings should recede little if at all. The current dividend rate seems safe.
Swift & Co.	2.77	3.77	1.22 22 wks. Apr. 3	206.4	137.5	34	2.10	9.0	B2	Strikes experienced may reduce 1948 earnings somewhat, but payment of steady dividends and a year-end extra probable.
United Biscuit	4.57	5.28	2.54 6 mos. June 30	12.4	9.8	21	1.50	4.0	B2	Current year earnings may be affected by higher costs to a moderate extent but should closely compare with 1947. Dividend stability indicated.
Ward Baking	4.58	3.03	2.07 27 wks. July 3	8.2	4.6	16	1.35	5.3	C1	Impressive sales gains bringing earnings improvement. Third quarter dividend raised to 25 cents per share along with a special of 20 cents.
Wilson & Co. X	3.44	6.82		62.6	53.4	15	.95	2.2	B2	Record earnings for 17947 may recede in 1948 due to long strike, but this should not threaten dividend stability.

b—Fiscal years ended in 1947 and 1948. e—9 months to November 30. c—Plus 10% stock.

Has PAPER Industry Struck Balance?



By GEORGE W. MATHIS

The paper industry's war-born prosperity promises to endure longer than skeptics thought possible a few years ago. Although abnormally wide profit margins are narrowing as peacetime competitive conditions gradually return, the disastrous cut-throat scramble for business that has characterized the end of previous booms seems less threatening than might be indicated by comparatively modest appraisal of current earnings. The explanation for at least restrained optimism is to be found in the fact that overexpansion which occurred at the end of the first World War is unlikely to be repeated—at least, not to the extent experienced a generation ago.

Productive facilities have been enlarged, it is true, but numerous high-cost marginal mills soon may become obsolete and as demand settles down to normal, output may not be far in excess of actual requirements. This is particularly true in newsprint, which provided the industry's headache in the early 1920's when prices tumbled. With reasonably satisfactory margins seemingly assured, representative companies may be expected to maintain earnings well above pre-war standards and in due course gain a degree of investment standing. Basis for a hopeful attitude in face of restoration of competitive conditions can be traced to such factors as the following:

(1) Consumption of paper appears to be maintaining a long-range uptrend. New production facilities promise to be adequate to accommodate growth, but hardly will be so excessive as to undermine prices. Demand for newsprint continues to rise more rapidly than production, for example, in reflecting growth in newspaper circulation as well as sales promotion activities using direct-mail. Use of paperboard containers of all kinds was stimulated during the war and has continued to expand since because of rising costs of competitive materials. An index of the uptrend in consumption is found in the per capita figures showing use of paper in this country at 343 pounds compared with only 58 pounds annually in 1900.

(2) Real limitations on raw materials as well as production facilities have been imposed by inflationary trends. Suitable timber has become virtually non-existent outside reserves of companies already in business. Moreover, costs have risen to levels that would be prohibitive for new producers. Construction costs have advanced so sharply that competition from new sources seems improbable. For example, whereas mills could be built before the war on a basis of about $25,000 a ton of capacity, now it is doubtful whether $50,000 would be sufficient to cover cost of a ton of new capacity. On such plant costs, new mills would find difficulty in operating profitably even at current price levels.

(3) Integration in production has made rapid strides in the last decade, tending to counteract rising labor and distribution costs. Fewer steps are required between raw materials and finished products. As a consequence, the industry has experienced substantial growth without attracting new interests. Manufacturing economies thus obtained have served to enlarge earnings and strengthen finances of companies in the industry.

(4) Foreign competition seems unlikely to prove as formidable as before the war. For one thing, substantial Finnish supplies have been removed from the world market by absorption in the Russian sphere of influence. Production in Scandinavian mills has been hampered by numerous economic influences. Moreover, shipping rates have advanced so sharply that transportation costs have eliminated most competitive advantages that prevailed before the war. Competent observers doubt that supplies of Swedish pulp will be offered in American markets in sufficient volume to affect the domestic price structure for some time to come.

New Products Improve Paper Outlook

As mentioned earlier, the industry gradually is returning to normal. Although this development portends keener competition and smaller profit margins, it indicates renewal of long-range growth. As an example, leading manufacturers of food containers have developed new products with which to exploit

new markets—such as plates to replace earthenware or china in dining cars, restaurants, etc., vacuum-type containers for carbonated beverages that may offer competition for bottles and a wide variety of specialties. While demand for regular products was so urgent manufacturers lacked the facilities with which to explore new fields. Accordingly, leading factors in the paper cup industry feel confident that regardless of a return to conditions where supply and demand are in balance, sales will continue to expand as new products are successfully marketed.

Competition Becoming Keener

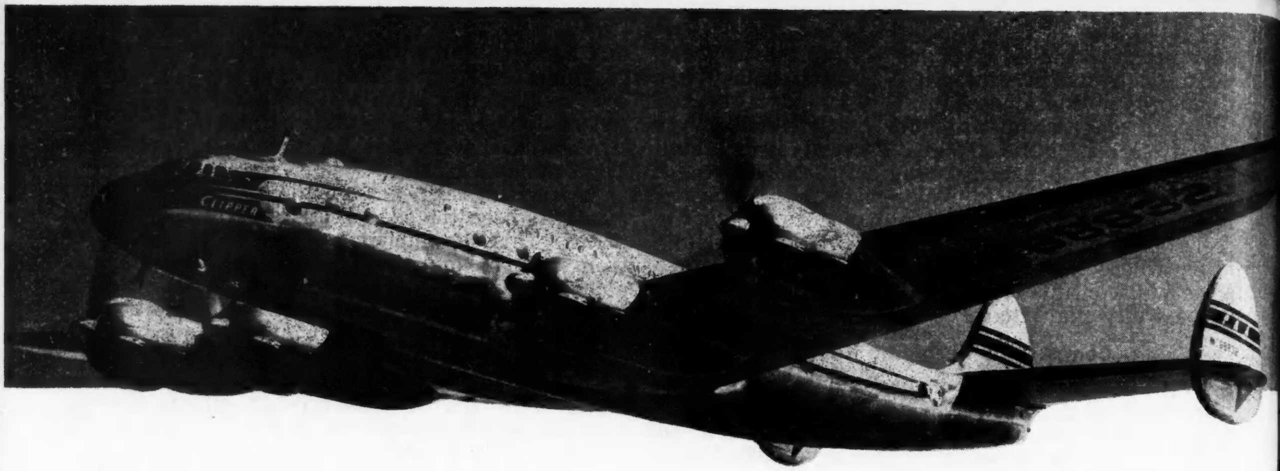
In graft wrapping paper, bags and shipping containers, return to normal has meant revival of price competition. Users have learned that it no longer is necessary to carry excessive inventories of containers and that it is possible to "shop around" for more desirable products. The result is that marginal mills which prospered during the war are threatened with closing. Construction of modern plants in the South and installation of mechanical equipment in older mills served to achieve operating efficiencies that foreshadow difficulties for older plants.

Another consequence of the post-war readjustment has been the sharp rise recently in newsprint prices. This development seems to have resulted from a tremendous increase in consumer demand at a time when manufacturers were concentrating energies on more profitable lines. Trade authorities have contended that newsprint has failed to contribute its normal share of profits in recent years, partly because O.P.A. price ceilings were more rigidly enforced on this product during the war than on pulp and paperboard. Whereas many types of paper have climbed to record high levels, newsprint at $100 a ton still is well under the $112.60 level reached in 1920. *(Please turn to page 505)*

Statistical Summary of Leading Paper Companies

	Net Per Share 1947	Net Per Share Interim 1948	Net Current Assets ($ Million)	Inventories ($ Million)	Recent Price	1947 Div.	Div. Yield	Price-Earnings Ratio	Investment Rating	COMMENTS
Champion Pap. & Fiber	$5.57 b		$16.3	$10.2	$23	$1.25	5.4%	5.1	B1	With wide earnings coverage, higher dividend recently adopted seems likely to continue for some time.
Container Corp. of Am.	10.09	$4.05 6 mos. June 30	20.4	9.0	35	4.50	12.8	3.5	B3	Downtrend in earnings due to keener competition unlikely to imperil regular rate, but extra may be reduced.
Crown Zellerbach	6.81 b		45.3	34.9	31	1.70	5.5	4.5	C+1	Indications point to maintenance of extra as well as regular rate in view of promising outlook for 1948 profits.
Dixie Cup	5.87	5.37 12 mos. June 30	6.3	5.1	37	1.00	2.7	6.3	C+1	Although competition is growing keener, earnings seem likely to prove adequate for company's conservative dividend.
Gaylord Container	4.08	.89 Mar. 31 quar.	11.0	4.6	22	1.66	7.5	5.4	B2	Despite narrowing of profit margins, earnings are expected to continue to afford coverage for liveral rate.
Gair, Robert	2.83	1.51 6 mos. June 30	7.2	4.2	8	.35	4.4	2.8	C+2	Although extra dividends are not yet threatened, time may be approaching for more cautious dividend policy.
Great Northern Paper	4.56	.77 Mar. 31 quar.	14.5	8.8	40	2.40	6.0	8.8	C+3	Good operating margins indicated. Stock of semi-investment quality. Pays liberal dividends.
Hinde & Dauch	5.06	2.44 Mar. 31 quar.	6.6	3.2	32	3.50	10.9	6.3	C+2	Strong competitive position appears to assure maintenance of satisfactory coverage for regular and extra payments.
International Paper X	15.02	3.68 Mar. 31 quar.	68.1	28.8	58	4.00	6.9	3.9	B1	Improved margins on newsprint promise to sustain relatively high earnings and afford wide coverage for increased rate.
Kimberly Clark X	4.29	2.48 6 mos. June 30	19.2	16.9	21	1.30	6.2	4.9	B2	Good diversification and above-average profit margins point to earnings stability and maintenance of current rate.
Lily Tulip	5.06	3.52 6 mos. June 30	3.8	4.2	41	1.50	3.7	8.1	B2	Growing markets tend to sustain earnings in face of competition and should maintain conservative dividend policy.
Mead Corp.	7.33	2.93 6 mos. June 13	12.8	12.1	19	1.55	8.2	2.6	C+2	Outlook seems promising for maintenance of higher dividend despite increasing evidence of return to keener competition.
National Container	4.13	.69 Mar. 31 quar.	6.1	4.5	12	1.10	9.2	2.9	C+3	Return to normal, accompanied by narrower margins, indicates that some of wartime dividend rise may be canceled.
Rayonier X	7.30	4.41 6 mos. June 30	18.6	7.4	35	.50	1.4	4.8	C+1	Peak earnings apparently at hand, but conservative dividend has wide coverage and redily might be increased.
St. Regis Paper	2.66	1.61 6 mos. June 30	36.6	27.5	12	.25	2.1	4.5	C1	Increase in output, contributing to earnings gains, affords hope of modest increase in conservative distributions.
Scott Paper	3.02	1.87 6 mos. June 30	11.3	8.5	47	1.95	4.1	15.5	B1	Management efficiency promises satisfactory coverage for current dividend and higher rate seems reasonable hope.
Sutherland Paper X	6.87	3.20 6 mos. June 30	5.3	4.9	40	2.50	6.3	5.8	B2	Good demand for food containers helps sustain earnings and provides ample coverage for regular and extras.
Taggart Corp.	1.29		2.3	4.8	11	Nil	.....	8.5	C2	Removal of preferred stock appears to assure continuance of modest dividend, most of which accrues to St. Regis Paper.
Union Bag & Paper X	7.93	4.90 6 mos. June 30	14.7	2.9	35	3.00	8.6	4.4	B—1	Despite narrowing margins in kraft and linerboard, larger volume sustains liberal coverage for record high dividend.
United Board & Carton	5.11	4.86 48 wks. May 1	2.8	1.6	12	1.25	10.4	2.3	C+2	Though financial position has been considerably strengthened, competition may imperil earnings and dividends next year.
W. Va. Pulp & Paper X	11.40	5.34 6 mos. April 30	22.6	10.2	48	3.00	6.2	4.2	B2	Earnings likely to hold well above prewar average and sustain liberal dividend, but lower extra payment possible.

b—Fiscal year ending in 1948.

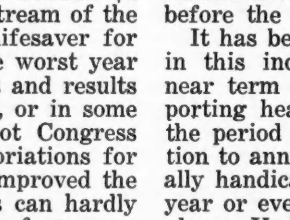


Which AIRCRAFTS in Best Position

By RICHARD COLSTON

The Government's injection of around $2 billion worth of orders into the bloodstream of the aircraft industry clearly has been a lifesaver for this hard pressed group. 1947 was the worst year on record for the plane manufacturers and results for 1948 might have been equally bad, or in some cases even more discouraging, had not Congress come to the rescue with huge approporiations for the Defense Program. This radically improved the outlook, and though the main benefits can hardly be felt concretely until a year or more from now, the industry feels that its feet are again upon more solid ground.

At the beginning of the current year, most concerns producing planes and parts were seriously worried over an increasing slump in orders for commercial aircraft and personal planes. For two years previous their hopes had been buoyed by sizable backlogs in these divisions, but by degrees these were whittled away, with prospects of further diminuation in 1948. As for military orders, these had nearly reached the vanishing point. Only 1,800 military planes were built last year in the United States, or less than 2% of the approximate 96,000 produced in 1944. With capacity vastly over-expanded during war years, operations of about half of the concerns in this specialized field ran heavily into the red in 1947, in some cases causing substantial inroads into working capital.



For many months past, however, managements of major aircraft companies have been in close contact with developments beginning to crystalize in Washington. Strong hints from official sources that military orders would be greatly expanded influenced radical steps to clean house. In consequence, the widespread poor earnings reports for 1947 were exaggerated by heavy charge-offs for engineering expenses, inventory and civilian plane losses. Big tax credits on the other hand were available last year for the last time to partially offset some of these write-offs. On balance, these adjustments cleared the way for more favorable operating results during 1948, and quarterly reports reflect substantial improvement by many concerns, even before the flood of new military orders appeared.

It has become very apparent that backlog orders in this industry provide an unreliable index of near term earnings potentials. Some concerns reporting heavy losses last year started and ended the period with unfilled orders very large in relation to annual sales. The industry is characteristically handicapped by having to allow as much as a year or even two years for production of intricate planes. Under the circumstances, overhead piles up in a big way and frequent technological changes throw schedules into expensive delays.

Varying Designs Limit Profits

Then during an inflationary period like the present, the constant rise in operating costs has made for very uncertain earnings when production of a single unit has had to be spread over a long time. Escalator clauses in sales contracts have helped to ease this difficulty to some extent, but could not fully compensate for large sums voluntarily allotted for research and development. Besides which mass production, the usual key to profitable operations, has been rendered almost impossible by the varying and changeable designs required by the military forces and the commercial airlines. Despite satisfactory backlogs last year, 15 airframe manufacturers reported a combined loss of $109 million for 1947, though tax credits of $88.5 million brought the final loss down to $29.6 million.

Aside (*Please turn to page* 501)

Pertinent Statistics on Aircraft Stocks

	Order Backlog* ($ million)	Per Common Share: Book Value	1947 Net	Interim 1948	1947 Div.	1948 Range	Recent Price	Investment Rating	COMMENTS
Beech Aircraft	$16.0	$17.95	def$4.54	$.48 June 30 quar.	Nil	15 1/8- 8 1/4	$12	C1	Continued downtrend in demand for small planes clouds outlook, though operations in June quarter were moderately profitable. No dividend in sight.
Bell Aircraft	16.0	39.65	def2.72	.33 Mar. 31 quar.	$1.00	19 3/4-15 3/4	16	C+2	Military orders for helicopters should improve earnings potentials. A year-end dividend may be paid.
Boeing Airplane X	400.0	41.40	def.41	def.03 Mar. 31 quar.	1.00	29 1/2-21 3/8	24	C+1	Despite small deficit in March quarter, full year results and long term prospects should prove satisfactory. Huge backlog suggests earnings uptrend, though dividend payments likely to remain conservative.
Cessna	....	7.98	.53	....	.20	5 1/4- 3 1/4	4	C1	Diversified output may help to offset shrinking orders for small planes. $1 million order for Government lockers received. Outlook for small dividend obscure.
Consolidated-Vultee	207.0	20.22	def14.42	def2.38 Mar. 31 quar.	.50	16 3/8- 9 5/8	10	C+1	Unprofitable civilian contracts and possible cut in production of B-36s may cause slim profits in 1948, but longer range potentials brighter. Resumption of dividends uncertain.
Curtiss-Wright	200.0	15.20	def.47	.23 6 mos. June 30	.25	12 1/2- 4 3/8	12	C+1	Improved operating conditions and increased orders brighten outlook. Ample cash resources have warranted recent dividend improvement.
Douglas Aircraft X	225.0	119.10	def3.57	.71 6 mos. May 31	2.50	67 7/8-47 1/2	56	B1	Receipt of large military orders has radically improved medium term outlook. 1948 interim earnings could prove consistently encouraging. Annual dividend probable in fall.
Fairchild Com. & Inst.	6.9	15.38	1.38	.10 Mar. quar.	.30	29 - 9 1/2	26	C+2	Combined military and civilian orders causing capacity operations. Improved earnings prospects suggest repetition of small dividend later in year.
Fairchild Cam. & Inst.	70.0	6.41	.71	....	Nil	5 7/8- 3 1/2	5	C2	Important supplier of military plane engines, with much improved prospects for continued profitable operations. Working capital needs may preclude early dividends.
Grumman Air. Eng. X	175.0	25.48	4.58	1.02 6 mos. June 30	3.00	25 3/4-22	23	C+1	Consistently successful aircraft producer. Sizable military orders enhance outlook for liberal dividends.
Irving Airchute	....	11.30	.17	....	.75	7 1/2- 4 7/8	6	C+1	Leading parachute maker likely to benefit from Defense Program in due course but no near term dividend probable.
Lockheed Aircraft	200.0	35.64	def2.30	....	Nil	24 5/8-13 3/8	22	C+1	Increased backlog opens way for real mass production. Last year's deficit unlikely to recur. But resumption of dividends improbable in near future.
Martin, Glenn L.	120.0	29.77	def16.91	....	.75	22 3/8-14 1/2	16	C+1	Outlook improved somewhat by backlog increase, but heavy working capital needs cloud prospects for dividend resumption during current year.
North Amer. Aviation X	400.0	11.59	1.28	.21 Mar. 31 quar.	Nil	13 3/8- 8	12	C+1	Substantially larger backlog should serve to keep operations profitable, though increased operations may prevent payment of more than 50 cents paid in July, at least for a time.
Northrop Aircraft	100.0	14.63	.54	....	.25	13 1/2- 7	12	C+2	Large order for flying wing jet bombers improves earnings potentials for medium term. Conservative dividend stability indicated unless capital needs prevent.
Piper Aircraft	....	1.81	def.39	....	Nil	4 - 2	3	C2	Producer of small planes with lower civilian demand, but should eventually benefit from moderate orders for military scout planes or parts. No dividend in sight.
Republic Aviation	81.0	6.53	def2.11	.55 June 30 quar.	Nil	13 3/8- 6 3/4	12	C1	Recent upturn in interim earnings likely to hold for some time ahead. Substantial backlog should permit mass production. Near term dividend improbable.
Ryan Aeronautical	4.7	9.65	def.32	.13 6 mos. June 30	.10	7 3/8- 3 3/4	5	C1	In contrast to deficit for 1947, later interim earnings show small profit, but small backlog discourages hopes for more than smal lannul adividend.
Solar Aircraft	11.0	7.48	1.61 b	....	Nil	14 1/2- 8 1/8	13	C1	Leading maker of aircraft exhaust manifolds, with outlook for well sustained but moderate earnings. Small chance for resumption of dividends in near term.
United Aircraft X	240.0	35.82	3.21	1.10 Mar. 31 quar.	1.25	30 5/8-22 7/8	28	B1	Successful and strongly financed producer of aircraft, engines and propellers. Uptrend in earnings and dividend payments indicated for some time ahead.
Wright Aeronautical	45.7	109.56	.85	1.37 Mar. 31 quar.	5.00	84 1/2-58	78	C+1	Important producer of plane engines, certain to receive fair share of military business. Earnings uptrend indicated. Two $5 dividends declared in current year.

b—Fiscal year ended in 1948. *—Latest indicated.

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TOBACCOS

Earnings Prospects

By PHILLIP DOBBS

Now, with the cigarette smoker paying one cent more per pack to his tobacconist and with the shares of tobacco companies recently showing a relatively better performance — a reappraisal of the industry is of special interest.

The cigarette companies, principal segment of the tobacco business, constitute a growth industry, and their stocks have been generally popular with investors. Cigarette production, which amounted to 140 billion in 1929, increased to 190 billion in 1940. Huge shipments to the armed forces raised the figure to 332 billion in 1945, and contrary to expectations growth continued in the post-war period with estimated sales of 368 billion last year. However, in recent years cigarette earnings have failed to keep pace with sales, since rapidly rising costs of raw tobacco have squeezed the narrow profit margins typical of mass production (raw tobacco represents about 70% of the net cost of a cigarette, excluding excise taxes).

Moreover, the industry has borrowed heavily to keep inventories in line with soaring sales and to meet the higher costs of raw tobacco. Hence cigarette stocks have lost speculative appeal as compared with other growth stocks; and their investment rating has also deteriorated somewhat, because the capital set-up is now less conservative than in the earlier history of the industry. Cigarette shares, therefore, lagged behind the Dow Jones industrial average during the 1940s.

However, the leading cigarette companies have been able to maintain considerable stability of earnings because of their practice of maintaining a three-year supply of tobacco. A future deflationary trend in agricultural products would undoubtedly benefit them in two ways—by improving profit margins, and by reducing the cost of raw tobacco in inventories, which would permit a reduction in debt. While the rate of sales growth may be smaller in the next few years, particularly in the event of an economic recession, this should not be too unfavorable for earnings, if profit margins can be simultaneously increased by reducing costs. The cigarette industry has been notably resistant to depression difficulties.

The industry has not benefitted substantially from its doubling of volume in the past decade. Excess profits taxes were a heavy burden during the wartime period and later rising tobacco costs prevented any speculative gains. Heavy sinking funds on debentures issued to increase working capital have also been a drain on surplus profits in recent years. Like the public utilities, the tobacco companies have found rapid growth to be a mixed blessing.

Illustrating the changed financial structure of the industry, five cigarette companies in 1947 had $1,367 million inventories compared with only $502 million in 1940. In order to handle this big increase it was necessary to raise long-term debt from $84 million to $447 million, bank loans from $38 million to $270 million, and preferred stock from $84 million to $153 million. Not much equity financing has been done, although American Tobacco in 1947 issued rights on a 1-for-5 basis.

Cut In 1948 Production Overdone

A large part of the industry's cost and inventory problems appear due to Washington's desire to sustain farm prices at high levels. Britain withdrew from the tobacco market last October just at the height of the auction season for our flue-cured crop, and as a result prices dropped about 7c from the previous year. A considerable part of the crop went into Government loan at 40c per lb. This spring there was still some 400 million lbs. in Government loan, about half burley and half flue-cured. Because of these events, Washington decided that production in 1948 should be reduced 26% in order

to cut back the carry-over. Now because of the increased British purchasing power resulting from ECA, it appears that the cut in 1948 production was overdone. At any rate sales to Britain will probably clean up Government holdings, and not much of the small 1948 crop should flow into Government loan channels.

Tobacco Prices Higher

With production of raw tobacco sharply curtailed at a time when European demand is rising, it was to be expected that prices would advance. Flue-cured tobacco, which supplies about half the cigarette companies' inventories, had already advanced from 15c in 1939 to 44c last year. The first offerings of Georgia-Florida flue-cured leaf on July 22nd hit a top of 67c per llb., indicating that average prices for the entire crop will average well above those of last year (when auction prices averaged 44c). The Government support price now approximates 44c compared with 40c last year. The price of burley tobacco is also rising rapidly, sales at 49c representing a gain of about one-fifth over last year.

Costs Force Cigarette Price Rise

Despite rising costs, cigarette makers had until the recent advance increased their prices only 1c a pack since 1937—½c a pack (25c a 1000) in October 1946. Many states and municipalities have increased cigarette taxes, however, which meant increases in the gross price. Federal taxes now amount to 7c a pack and 39 states levy additional tax, New Jersey taking 3c. In the past year or so eight additional states have imposed taxes of 1 to 3c, and seven states have increased taxes 1 or 2c.

American Tobacco on July 28th announced an increase of 5½% in the wholesale price of Lucky Strikes (from 13c to 13.7c). The other companies promptly followed suit. Retailers are passing the increase on to the public and slot machines will have to be adjusted.

Defending the move, President Riggio of American Tobacco, stated: "Continuing increases in the cost of leaf tobacco, materials and supplies, freight and shipping expenses, and wages can no longer be fully absorbed without increasing prices. Leaf prices as indicated in the tobacco markets which opened last week are substantially higher than they were last year and two years ago, and of course higher than they were prior to the war. In fact, all costs seems to be on the increase, and our new prices will not fully cover the higher costs that we have to meet, particularly for high-quality leaf tobacco."

Company Earnings Trends Vary

Industry sales this year are expected to compare favorably with the 370 billions of 1947. Buying by distributors was lower in January and February but this largely reflected abnormal conditions in early 1947, when Camels were heavily stocked in anticipation of a strike. Sales have improved with June sales up nearly 9% over June 1947, but the rise may be checked by the current price rise. Exports of cigarettes (which were down 8% last year) are expected to increase as the result of ECA-financed purchases.

While cigarette output this year has been running about 6% ahead of last (*Please turn to page* 508)

Position of Leading Tobacco Companies

	Net Per Share 1947	Net Per Share Interim 1948	Net Curr. Assets ($ Million)	Inventories ($ Million)	Recent Price	1947 Div.	Div. Yield	Price-Earnings Ratio	Investment Rating	
American Snuff	$2.12		$13.2	$9.2	$34	$2.00	5.9%	16.0	B2	Distributors are rebuilding inventories, and earnings may be maintained despite higher costs. Continued $2 dividend rate likely.
American Tobacco W	5.70	$1.24 Mar. 31 quar.	366.7	483.1	59	3.50	5.9	10.4	A2	Management changes have not disturbed company's strong trade position. Rising costs offset by recent increase in cigarette price. $3 dividend should continue with probable March extra.
Bayuk Cigars W	2.96	1.11 6 mos. June 30	18.2	13.7	20	1.75	8.7	6.8	B3	Earnings are expected to decline this year; regular $1.50 dividend may continue but year-end extra seems doubtful.
General Cigar	2.64	.33 Mar. 31 quar.	22.6	28.5	21	1.50	7.1	8.0	C+3	The sharp decline in first quarter earnings raises doubts regarding payment of a year-end extra (50c last year).
Helme, G. W.	3.80		14.5	7.5	60	4.00	6.7	15.8	A2	Third largest snuff company, enjoyed substantial gain in first quarter sales. With extremely strong cash position $4 dividend rate should continue. Attractive yield.
Liggett & Myers W	6.83	3.59 6 mos. June 30	289.7	316.5	89	4.50	5.0	13.0	A1	Current increase in cigarette prices will improve earnings. Regular $4 rate should continue, with $1-$2 year-end extra considered possible.
Lorrilard	2.15		69.9	73.2	20	1.50	7.5	9.3	B2	Company has not raised Old Golds but is expected to fall in line. With earnings estimated at over $2, year-end 50c extra likely.
Philip Morris	2.60a		94.9	93.9	32	1.75	5.5	12.3	B1	With higher prices, earnings expected to gain substantially over the $2.60 for fiscal year ended March. Total annual payment round $2 considered possible.
Reynolds Tobacco B W	3.04		295.7	400.0	37	2.00	5.4	12.2	A3	Ernings should be well maintained and $1.80 dividend rate should be continued or improved.
U. S. Tobacco	1.26		19.3	16.3	18	1.20	6.7	14.3	B2	Company's operations are remarkably steady but the $1.20 dividend rate seems generous in relation to earning power. Cash declining.

a—Fiscal year ending March 31, 1948.

FOR

PROFIT AND INCOME

Seasonal

Over the last half-century, August has been a month of net gain for the market about twice as often as it has brought declines, or very nearly the same record as for July. There is still time for the favorable seasonal tendency to reassert itself; but, as was seen in July, it can always be washed out by special fears or uncertainties. When you talk to investors today, the No. 1 worry in the minds of most of them is the foreign situation and the possibility of war. Unless this tension is ended by the outcome of diplomatic efforts, the best this column would expect is a trading-range market within the 165-193 limits already marked out by the Dow industrial average in 1948. In such a market, the pay-off is largely on selectivity, except for mere trading operations which appeal to relatively few.

Support Level

At the present time the only support level of major technical significance is the March low of roughly 165 for the industrials, which was only some 2 points above the 1946-1947 bear-market double-bottom, a fraction above 163. A low above 165 made on the current decline would have "intermediate" technical significance if it were unviolated for several, or more, weeks. Previous highs or lows always have a psychological importance roughly proportionate to the time period over which they have remained unbroken. The June high around 193 already stands as the technically vital supply level. It is hard to see how it could be topped during the rest of this summer—or this year—without an upsurge of "peace confidence", and even this would not guarantee it. Doubts are again rising as to the duration of the inflationary boom.

Dow Theory

The Dow Theory bull-market "confirmation signal" given in May at 187 in the industrial average was followed by a further rise of only some 6 points, all of which and much more has since been cancelled. The result gives the famous Theory a black eye, and not for the first time. Major-trend "confirmations" come so belatedly that they have not been worth following except in the really great swings—bull or bear—such as 1923-1929, 1929-1932, 1933-1937 and 1942-1946. They are virtually useless in 30-to-60 point bull or bear markets, in which much of the entire movement can come in a matter of weeks. Thus, successful use of the method requires a large measure of judgment aimed at (1) anticipating the trend before there is "confirmation"; and (2) forming an opinion as to whether the assumed bull or bear market is likely to be big or small, short or long. No technical method can project either the scope or duration of a rise or fall. The best that any can do is to indicate the probable trend-direction, and the Dow-Theory method is one of the least effective of these because of its slowness in "signalling". On the other hand, the more sensitive indicators can call for fairly frequent reversals of position, and hence are more useful to traders than to investors.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
Air-Way Electric Appliances	6 mos. June 30	$1.69	$1.24
American News	June 30 quar.	.78	.65
Atlantic Refining	6 mos. June 30	5.76	2.07
Champion Paper & Fiber	Year April 30	5.57	4.47
Certain-teed Products	6 mos. June 30	1.94	1.78
Dow Chemical	Year May 31	3.72	2.31
Gotham Hosiery	6 mos. June 30	2.47	2.02
Otis Elevator	6 mos. June 30	2.57	1.62
Texas Gulf Producing	June 30 quar.	1.13	.66
U. S. Plywood	Year April 30	5.28	3.71

This Time

Sustained peacetime bull markets have always been associated with a rise in business and earnings from a depression low; and have developed when monetary-credit factors were propitious, as reflected in rising bond prices. What was the situation when Dow Theory "confirmed" a bull market in May? Business, earnings and dividends were at a boom level as they long had been; commodity price inflation was far advanced; interest rates were pointing up to the extent that they could under Federal controls; only large-scale Federal Reserve support of the Government bond market was preventing (as it still is) an important decline in both Federal and corporate bonds; banks were under pressure, making for increasing caution in loan policies; and, finally, there was the "cold war's" tension and uncertainty, without peacetime precedent. In that environment any bullish technical "indication" needed to be taken with reserve. Because of the dubious environment and the waning vigor of the Spring-Summer rise, this publication elected, late in June with the industrial average at about 190, to take to the selling side. The March-June swing should go down in history as a trading-range affair, although quibblers can call it a minor and short bull market.

Oils

Oil stocks could go lower under general market weakness simply because there are still large profits in them at present levels; and most people, when they get scared enough to reduce investment positions, sell stocks which show them the greatest profit and hang on to their disappointing holdings. However, on a basic, longer-term view, probably no other group has such appeal. There is a great deal of reserve cash waiting to go into oils and hoping to get them "cheap". Few will get bottom prices, for most people will over-stay the decline. Where it can be done, and still leave reasonably conservative reserves, scale-down buying seems justified now. All leading oils are cheap on current high earnings, and some are attractive also on a current dividend-yield basis. Earnings could decline importantly only under an over-supply of oil, but no such condition is foreseeable. There is nothing temporary about the record demand. There will be more motor vehicles on the roads at the end of 1949 than at the end of 1948; and as long as any homes are built, more fuel oil will be burned each year. Only doubts about being able to get enough oil are holding down oil-burner installations now.

Examples

There are many good oil stocks; and among the larger, integrated companies the differences in quality of the equities are not very wide. A few of the best are Standard Oil of New Jersey, Standard Oil of California, Gulf Oil, Shell Union, Texas Company, Continental Oil and Union Oil of California. Purely on a yield basis, Union Oil is especially attractive, as the recently established and well-covered $2.50 dividend rate gives a current return of about 7.3%. Among the top-flight oils, Standard of California is one of the best choices, currently yielding around 6% on the firmly established $4 dividend rate. For long-term apppreciation there might be more in Atlantic Refining than in either the first-line oils or the oil stock group, for the company is radically improving its crude oil position and will rank well up among integrated oils at no distant time. The stock, although certainly not among the most speculative oils, is relatively volatile, the range this year having been 30-50⅛, with current price around 43.

Natural Gas

There is also nothing temporary about the boom in the natural gas industry. Additional customers can be had as rapidly as transmission and distributing lines can be extended. At least some years of further growth are certain. As a return of about 6% on capital is permitted by regulatory agencies, expanding investment implies gradual growth of equity earnings, despite much new security financing. Southern Natural Gas will go on a $2.00 dividend in September, against $1.50 heretofore paid. The $1.00 United Gas dividend probably will be increased within six months or so. Most other dividend boosts will await a later stage of property expansion. One of the most conservative long-term growth stocks in this industry is Consolidated Natural Gas, a one-time subsidiary of Standard Oil of New Jersey, serving a broad area of Ohio, Pennsylvania, Western New York and West Virginia. The stock is currently selling around 42, the year's low, and paying a secure $2.00 dividend. This column regards it as an attractive scale-down buy.

Coal

Speaking of fuels, what about coal? The coal-mining companies are showing the juiciest profits in a great many years, due to greatly increased total demand for fuel and to price inflation. But coal, unlike oil and natural gas, is a declining industry which is having a fortuitous recovery. The per captia consumption of coal reached its all-time peak as far back as 1920. Coal's share of the energy-fuel market is still in a long-term downtrend. Whenever a general business decline comes, it will hit the coal industry much harder than oil or natural gas. In fact, it should not affect the latter two at all. Although coal stocks are already materially down from their highs, this column would much rather sell them than buy them.

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
Bon Ami "A"	6 mos. June 30	$2.00	$2.66
Clinton Industries	June 30 quar.	.26	1.22
Food Fair Stores	28 weeks July 10	.84	.92
Hazel-Atlas Glass	12 mos. June 26	1.22	2.33
Master Electric	June 30 quar.	.51	.70
McCall Corp.	6 mos. June 30	2.19	3.42
Nehi Corp.	6 mos. June 30	.63	.72
Pepsi-Cola	6 mos. June 30	.41	.86
Pittsburgh Steel "A" Pfd.	6 mos. June 30	15.97	17.63
Shattuck, Frank G.	6 mos. June 30	.30	.78

Answers to Inquiries

The Personal Service Department of The Magazine of Wall Street *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Northrop Aircraft, Inc.

Please advise on order backlog, working capital position and late earnings of Northrop Aircraft, Inc.

A.C., Bowling Green, Ky.

Northrop Aircraft, Inc., reported a profit after taxes of $304,050 for the first nine months of operations during the company's present fiscal year. The profit amounts to 67½c a share during the period.

The third quarter was the largest of any period of the fiscal year to date. In previous statements, Northrop reported profits of $106,000 for the first quarter and $189,000 for the first half of the fiscal year. The unaudited figures covered operations up to April 30, 1948.

Working capital of the company was improved at $3,652,955.33, of which $2,570,000 was cash. This represented a current ratio of 2.25 to 1. At the last quarterly report, issued on the company's January 31 standing, the working capital amounted to $3,333,000. No bank loans are outstanding.

Northrop recently was notified that it will be awarded an Air Force contract for 30 of the giant Flying Wing B-49 airplanes, longest-range jet planes in the world, developed by the company as a heavy bomber. This contract is expected to raise the Northrop backlog of orders to more than $100,000,000.

The company currently is engaged in an accelerated production program to complete its contract for the even longer-ranging Flying Wing B-35 bombers. Ten of these propeller-driven giants remain to be delivered. All are in final stages of production. Northrop also has launched production of 23 C-125 Raiders, military assault transport versions of the three-engined Northrop Pioneer.

Seeger Refrigerator Company

Please report reent sales volume and earnings of Seeger Refrigerator Company.

R.S., Chicago, Ill.

Seeger Refrigerator Company reports in an unaudited statement for the nine months ended May 31, 1948, net profit of $2,006,306, equivalent to $1.82 per share on the outstanding capital stock. This compares with net profit of $1,-072,233, or 97½c per share, for the nine months ended May 31, 1947. The company has 1,100,000 shares of capital stock outstanding. For the nine months ended May 31, 1948, gross sales increased to $42,686,041 from $23,-792, 466 reported for the corresponding period of 1947. Estimated federal and state taxes on income for the two periods were $1,604,279 and $714,822 respectively.

Company manufactures electric household refrigerators, principally for Sears, Roebuck & Company.

Seeger also supplies refrigerator cabinets for Montgomery, Ward & Company, Inc. and others, and manufactures commercial refrigerator cabinets.

Dividends including an extra amounted to $1.25 per share in 1947 and 25c quarterly has been declared thus far this year.

Budd Company

"Please advise on recent earnings and prospects for Budd Company."

R. I., Des Moines, Iowa

Record-breaking earnings for the first half of 1948 were reported by Budd Company. Subject to year-end audit, a net profit of $8,980,943 before income taxes, and $5,115,943 after provision for income taxes, set a new high in the company's earnings. The net profit is equivalent to $1.37 per share on common stock outstanding on June 30, 1948, after allowing for perferred dividends.

Total sales for the period were $108,986,714, another record-breaking figure. Sales during the first half of 1947 amounted to $92,477,707. Sales for the second quarter of 1948 were $53,673,110 compared with $48,030,185 for 1947. Profits for the second quarter of 1948 were $2,258,245, compared with $1,527,752 for 1947.

In the field of domestic railway passenger car construction, Budd's production has greatly improved. During 1947 company built 155 of the industry's total of 861 cars, or 18%. This percentage has been almost doubled in the first half of 1948 with Budd building 118, of 31.3% of a total of 377 cars. In spite of increased production, the back log of the Railway Division has risen from 517 cars on December 31, 1947 to 554 on June 30, 1948.

Dividend payments on the common stock in the first half of 1948 amounted to 20 cents a share, compared with 10 cents a share for the full year of 1947. Prospects for the balance of this year continue favorable.

Keeping Abreast of Industrial and Company News

Packard Motor Car Company is now developing gas turbine engines for Air Force planes and guided missiles. G. T. Christopher, president of the company, states that the facilities, with complex laboratories for every phase of gas turbine research, are rapidly nearing completion. Three wind tunnels are being used for experimentation, two being of the supersonic type and one of the vortex type.

A "growth-resistant" cast iron that will eliminate the problem of warping and buckling of heating surfaces has been developed by Battelle Memorial Institute. Heating appliance manufacturers in the future will be able to make stove tops that will not warp, furnace bowls that will remain true and airtight after years of service, and burner parts that will last indefinitely.

Standard Oil Company of New Jersey has completed negotiations for the construction of eight additional super-tankers with a capacity of 228,000 barrels each, raising to fourteen the number of new-type tankers the company has contracted for within the last six months. Six of the tankers will be built by Newport News Shipbiulding and Drydock Company and two by the Sun Shipbuilding and Dry Dock Company.

A new GR-S synthetic rubber with superior wearing qualities is now being made at the unprecedented low temperature of zero Fahrenheit, according to the **United Rubber Company.** The new type shows promise of being even better than GR-S made at 41 degrees, developed during the last six months, which increases tire tread wear 30 per cent over the best natural rubber.

United Fruit Company has accepted delivery of the 5,000 ton fruit-carrying vessel Morazan, completing a $72,000,000 expansion program that began five years ago. This was the last of eighteen new ships that began to come down the ways of three shipyards in 1944. This fleet is to operate to Southern ports out of New Orleans, New York, and other ports. In addition, the company has also placed in service its six passenger liners rebuilt since the war.

A device that may save millions in airport costs by permitting planes to land cross wind has received its official approved type certificate from the Civil Aernoautics Administration. Developed by a subsidiary of **Goodyear Tire and Rubber Company,** the device permits the wheels of a Douglas DC-3 to swivel as they touch the ground while the wings and fuselage of the plane itself continue to head into the wind.

Eastman Kodak Company has announced the production of a giant telephoto lens for use in aerial reconnaisance photography by the Air Force. This lens measures nearly four feet in length and five inches in diameter. The Air Force wil use the lens with the K-34 aerial camera for taking pictures on 9 x 18 inch film at altitudes up to ten miles.

By using new machine tools, three units can do the work of five old ones when new plants are built under the national decentralization program—so states T. **Berna, general manager of the National Machine Tool** Builders Association. He stresses that because of high production costs in some industrial centers, there will be a trend toward decentralization from now on. In his opinion American industry could increase its output 50% by replacing worn out and obsolete tools with new ones.

Under a new direct reduction process, iron ore can be converted to practically pure, uncontaminated iron by using anthracite or natural gas as fuel instead of metallurgical coke. This has been disclosed to iron and steel engineers by H. A. Brassert, president of H. A. Brassert Company. Costs of iron produced by this method, according to estimates now prepared for leading manufacturers, amount to only $21-26 per ton, compared with pig iron prices of $25-40 per ton. In addition, valuable by-products are recovered.

Expanding its chemical activities, **Phillips Petroleum Company** has formed a wholly owned subsidiary, the **Phillips Chemical Company.** The new company will conduct the parent company's chemical and synthetic rubber operations, as well as its furnace-type carbon black operations now handled by another wholly owned subsidiary.

A new electronic color analyzer so sensitive that it will detect color differences too small to be seen by the average human eye has been developed by the Ansco division of General Aniline and Film Corporation. The instrument is said to be able to measure one one-hundred millionth of the light emitted by an automobile headlamp. Although designed primarily for photographic work, the instrument can be adapted to scores of other uses in many other fields.

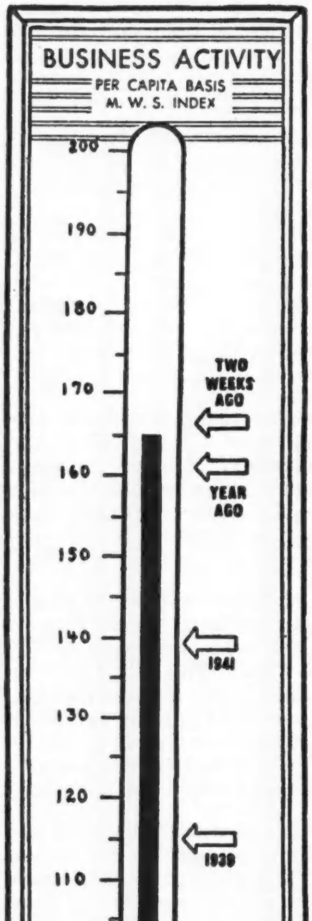
Westinghouse Electric Corporation has requested the Federal Communication Commission for a television channel for the first commercial Stratovision station—part of a projected nationwide system of airborne telecasting stations which promise to bring television to millions in rural areas. The request is to "Stratovize" over Pittsburgh and within a radius of 250 miles.

A new windshield glass with a transparent film of oxide 20-millionths of an inch thick to carry an electric current, has been developed by **Libbey-Owens-Glass Company** to eliminate icing and fogging. The new product is called Electrapane.

What's Ahead for Business?

By E. K. A.

It can hardly be said that business is unduly concerned about the President's all-embracing anti-inflation proposals which, it is widely thought, will largely fizzle into nothing. Were this not so, one could seriously raise the question whether it were more afraid of inflation controls or of inflation itself. Both have come to be regarded highly impalatable.



Relative complacency over the anti-inflation program is not just due to the belief that the Republican majority has in their hands to kill it, wholly or in part. It also rests in the obvious lack of logic and insincerity that marks the program as such. The latter not only ignores the true causes of inflation, and the Administration policies responsible for it, but it actually suggests new inflationary moves—all in the name of combating inflation. It readily admits that excessive purchasing power, in the face of production bumping against practical ceilings, is the principal cause.

Yet it would further increase purchasing power by price controls (which would leave more consumer funds for other than controlled items); by raising minimum wages; by encouraging housing in a definite manner through liberalization of financing facilities; and finally by spending more money on public works programs. Political as it is, no Congress could approve such measures in the name of curbing inflation. Business feels pretty sure this one won't, and hence refuses to become panicky about it. Possible restriction of bank credit is the only feature taken seriously: it may be greatly watered down, however.

Inflation Worries

Rather business is getting increasingly concerned about inflation itself, and how the new price spiral will affect sales prospects. The boost in steel prices assures a further upward trend of the general price level, particularly in consumer durables which already are getting harder to sell. The latest price rises in lead, zinc and copper (the latter not yet general) are adding pressure on the price front. Little wonder that steel consumers are now besieging Congress to step in and legalize basing point pricing outlawed by the Supreme Court. Their claim is that f.o.b. pricing not only lifts costs but stifles competition. On the latter point there might be some disagreement, however. Significantly, Bethlehem Steel, a week after raising steel product prices form $2 to $12 a ton, announced price reductions on certain items of $1 to $3 a ton because of competition they found to exist in certain products. However, don't expect prompt congressional action on the pricing issue; the legislators' idea is to cut this session as short as possible.

In the non-durable goods field, sore spot of the economy only a few weeks ago, there has been considerable improvement, particularly in textiles. The textile slump appears to be over. While pipelines are filled and buyers no longer scramble for goods indiscriminately, business has picked up smartly and remains at boom levels. Price pressure continues, however, with retailers insisting on lower priced goods.

The quickened pace of retail sales during the second quarter of the year was in part attributable to the reduction in individual income taxes and to wage increases. The sales pattern has continued in favor of durable goods, but food sales were running well ahead of last year. With increased incomes at their disposal, consumers have been able to step up their durable goods purchases without any curtailment in other types of spending. Inventory changes have tended to move inversely with shifts in consumer takings.

Autumn A Key Period

What worries businessmen is the impact of the new price spiral, particularly in soft goods lines. The second quarter spending pattern is no indication what may happen in the third and fourth quarter when price boosts based on third round wage increases will have become general. It is widely felt that we have reached the point where another round of price increases—that is the latest one—could easily tip the scale in the direction of sliding sales. The next few weeks will indicate how good autumn business will be. Unless retail trade, now in the summer doldrums, snaps back promptly and smartly, we shall know that caution is in order.

The Business Analyst

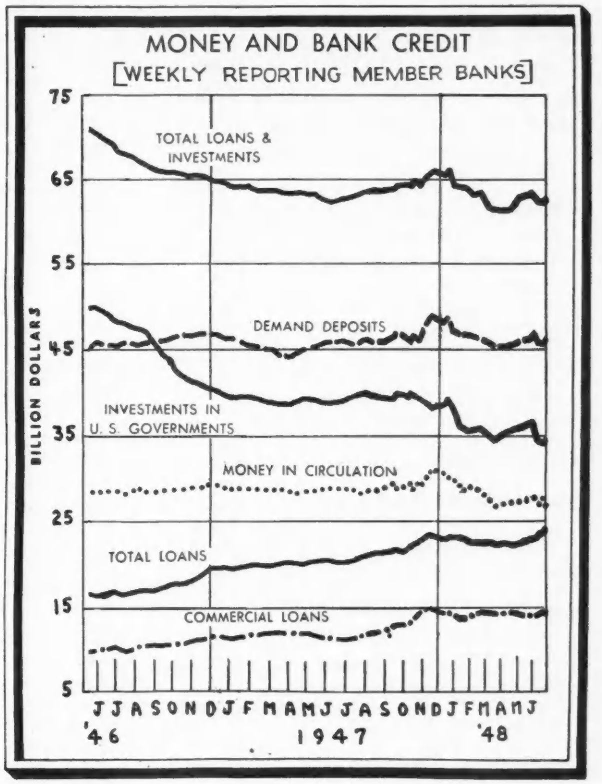
HIGHLIGHTS

MONEY AND CREDIT—Common stocks reactionary during past fortnight; but foreign dollar bonds hold firm, despite political clouds abroad. Personal savings reach new high—up 4% in the year. Present Congress will probably not O.K. President Truman's contradictory program calling for more government spending and tighter Federal controls; but may authorize an increase in reserve requirements.

TRADE—June retail store sales were 13% above last year in dollar total, with durable goods up 19% and nondurable 10%. Department store sales up 9% in past fortnight.

INDUSTRY—Influenced by summer vacations, business activity continued to sag slowly during the past fortnight, down to a level only 4% above last year at this time. Wholesale prices reach new all-time high: then settle back fractionally. Iron, steel and non-ferrous metal prices advanced again. June dividends 1% above last year. Crude oil prices will probably not be advanced in near future. Our excess of exports over imports continues to narrow slowly. New orders booked by furniture makers during June were 25% ahead of last year.

COMMODITIES—Commodity futures decline, in some instances breaking Government support levels by a few cents, under pressure of heavy marketing and upward revision of probable yields. Government negotiating for larger purchases of Cuban sugar. Europe's demands for our wheat may exceed earlier estimates, and our own military needs are heavier than previously reckoned.



Under the influence of summer vacations, **Business Activity** continued to sag slowly during the fortnight ended July 24, down to a level only 4% above last year at this time.

* * *

Department Store Sales in the fortnight ended July 24 were 9% above the corresponding period last year in dollar volume, compared with a cumulative increase of only 7% for the year to date.

* * *

Publicity reported cash **Dividends** (about 60% of all corporate dividends) paid during June totaled $726 million—10% more than for June, 1947.

* * *

New orders booked by **Furniture** makers during the first half were larger than for the like period last year, with June up 25%. New orders at the end of June, however, were 8% smaller than a year earlier. This is attributable to the circumstance that shipments during the first half were 19% ahead of the first half of 1947.

* * *

Our **Excess of Exports** over imports continues to narrow gradually; but, so long as domestic capital expenditures and Government outlays for defense continue large, there is no need at the present time to worry about a business depression.

* * *

The Federal Reserve Board reports that **Liquid Assets** (U. S. Government bonds, savings and checking accounts) owned by individuals totaled about $125 billion at the end of 1947—an increase of $5 billion during the year, and $12 billion in two years. This amounts to around $3,000 per family, or about 62% of a year's earnings. Since people are still adding to savings, we can not share the Board's alarm over their inflationary potentialities.

* * *

Led by sharply higher prices for dressed meats, the Labor Bureau's index of **Wholesale Commodity Prices** rose 1.7% during the week ended July 17, to a new all-time high at 168.9% of the 1926 average—1.7 points above the previous peak touched in May, 1920, which marked the end of the post-world-war I period of inflation.

* * *

The 11% advance in **Steel** prices since our last issue has stirred up talk of an official inquiry, though it looks now as though this may amount to little more than extending an invitation for steel executives to appear before a Congressional committee and explain their reasons.

* * *

The industry's abandonment of the **Basing Point System** will impose an additional cost upon distant consumers for whom freight charges will no longer be absorbed. With the aim of overcoming this handicap, a number of steel fabricating companies are considering the advisability of moving their plants closer to their sources of supply.

* * *

Zinc and Lead prices have been advanced since our last issue, for the second time this year. Lead was upped two cents a pound to 19½ cents, the highest level in history. Zinc was raised three cents a pound to 15 cents, the highest since world war I when it went above 21 cents. Rising costs for labor and material are responsible.

* * *

Several small, high-cost producers have also raised the price of **Copper**. It can be done at a time when demand far

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	June	1.12	1.04	1.50	1.55
Cumulative from mid-1940	June	369.2	368.1	356.4	13.8
FEDERAL GROSS DEBT—$b	July 28	253.3	253.3	259.1	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	July 21	46.7	46.4	47.2	26.1
Currency in Circulation	July 28	27.8	27.9	28.1	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	July 21	8.60	8.62	7.52	4.26
93 Other Centers—$b	July 21	12.32	12.31	11.01	7.60
PERSONAL INCOMES—$b (cd3)	April	209.1	207.7	189.4	102.0
Salaries and Wages	April	127.6	128.2	117.7	66.2
Proprietors' Incomes	April	53.7	51.5	46.5	22.8
Interest and Dividends	April	16.1	16.0	14.3	10.0
Transfer Payments	April	11.7	12.0	10.9	3.0
(INCOME FROM AGRICULTURE)	April	24.5	22.9	21.1	10.1
CIVILIAN EMPLOYMENT—m (cb)	June	61.3	58.7	60.1	51.8
Agricultural Employment (cb)	June	9.4	7.9	10.4	8.8
Employees, Manufacturing (lb)	May	15.8	15.9	15.6	13.8
Employees, Government (lb)	May	5.6	5.6	5.5	4.6
UNEMPLOYMENT—m (cb)	June	2.2	1.8	2.6	3.8
FACTORY EMPLOYMENT (1b4)	May	155	156	154	47
Durable Goods	May	184	185	182	175
Non-Durable Goods	May	133	133	131	123
FACTORY PAYROLLS (1b4)	May	346	347	319	98
FACTORY HOURS & WAGES (1b)					
Weekly Hours	May	39.9	40.0	40.1	40.3
Hourly Wage (cents)	May	129.9	129.1	126.7	78.1
Weekly Wage ($)	May	51.89	51.58	48.44	32.79
PRICES—Wholesale (1b2)	July 24	168.9	168.9	150.6	92.5
Retail (cdlb)	April	190.8	188.6	177.2	116.2
COST OF LIVING (1b3)	June	171.7	170.5	157.1	110.2
Food	June	214.1	210.9	190.5	113.1
Clothing	June	196.9	197.5	185.7	113.8
Rent	June	116.8	116.5	109.2	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	June	10.71	10.71	9.49	4.72
Durable Goods	June	2.86	2.72	2.40	1.14
Non-Durable Goods	June	7.85	7.99	7.09	3.58
Dep't Store Sales (mrb)	June	0.81	0.82	0.72	0.49
Retail Sales Credit, End Mo. (rb2)	June	7.06	6.52	4.92	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	May	243	252	235	181
Durable Goods	May	266	292	256	221
Non-Durable Goods	May	230	228	222	157
Shipments (cd2)—Total	May	324	321	283	187
Durable Goods	May	350	352	316	227
Non-Durable Goods	May	308	307	264	158
BUSNESS INVENTORIES, End Mo.					
Total—$b (cd)	April	51.5	51.6	44.6	29.2
Manufacturers'	April	29.1	29.1	25.8	16.7
Wholesalers'	April	8.1	8.2	6.8	4.7
Retailers'	April	14.3	14.3	12.0	7.8
Dept. Store Stocks (mrb)	April	2.41	2.37	2.06	1.4
BUSINESS ACTIVITY—1—pc	July 24	165.2	165.4	161.2	141.8
(M. W. S.)—1—np	July 24	187.1	187.2	179.8	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 497)

exceeds supply, and it would occasion little surprise if the big producers soon follow suit.

* * *

The Bethlehem Steel Co., however, has just rescinded about a third of the advance in some **Steel Products** that had been announced only a week earlier. Reason given was growing competition.

* * *

It begins to look as though, barring an unforeseen expansion in military demand, **Crude Oil** prices will not be advanced again this year. Mr. Howard W. Paige of Standard Oil Co. (N. J.) points out that crude output has been expanded by 225,000 bbls. daily during the past nine months, while imports have also risen. Economist Courtney C. Brown of the same Company predicts that consumers will have all the **Fuel Oil** they need next winter, "barring strikes or unforeseeable trouble."

* * *

The President's main cause for irritation with Congress is that the representative body no longer functions as a rubber stamp for his ideas for a **Planned Economy.** Aspiring dictators can't brook opposition and scorn compromise. In calling an extra session to re-instate war-time controls, he failed even to consult his Committee of Economic Advisers, which had already formulated a sensible program for dealing with inflation without resort to new legislation.

* * *

Among **Inflation Controls** which the E. C. A. had outlined for the President's approval were: reduction of Government spending; careful timing in the purchase of scarce commodities, and the use of substitutes wherever possible; Government cooperation with industry to aid and encourage expansion of output; Government to encourage industry-labor cooperation to stop the wage-price spiral, and to promote education on the economic facts of life.

* * *

By contrast, the President's **Anti-Inflation Message** to Congress presents a weird hodge-podge of political opportunism and economic naivete. He would stoke the inflation fires by expanding Government spending for goods and services and then treat the resulting symptomatic rise in inflationary pressure by clamping Government controls on the safety valve.

* * *

The message urges **More Government Spending** on public works, enlarged payments to states for various projects to which

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
INDUSTRIAL PROD.—1—np (rb)	May	191	188	185	174
Mining	May	162	147	151	133
Durable Goods, Mfr.	May	220	217	218	220
Non-Durable Goods, Mfr.	May	178	177	170	151
CARLOADINGS—t—Total	July 24	883	893	920	833
Manufactures & Miscellaneous	July 24	371	372	391	379
Mdse. L. C. L.	July 24	99	96	112	156
Grain	July 24	65	67	73	43
ELEC. POWER Output (Kw.H.)m	July 24	5,342	5,197	4,730	3,267
SOFT COAL, Prod. (st) m	July 24	12.1	12.2	11.8	10.8
Cumulative from Jan. 1	July 24	319	307	343	446
Stocks, End. Mo.	May	47.0	34.4	50.2	61.8
PETROLEUM—(bbls.) m					
Crude Ouput, Daily	July 24	5.4	5.4	5.1	4.1
Gasoline Stocks	July 24	101	101	86	86
Fuel Oil Stocks	July 24	65	63	52	94
Heating Oil Stocks	July 24	55	53	45	55
LUMBER, Prod. (bd. ft.) m	July 24	560	478	520	632
Stocks, End Mo. (bd. ft.) b	May	5.8	5.8	5.4	12.6
STEEL INGOT PROD. (st.) m	June	7.26	7.56	6.95	6.96
Cumulative from Jan. 1	June	43.1	35.8	42.3	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	July 29	114	143	101	94
Cumulative from Jan. 1	July 29	4,047	3,933	3,187	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	July 24	159	138	164	165
U. S. Newsprint Consumption (st)t	June	428	456	390	352
Cigarettes, Domestic Sales—b	May	28.5	32.1	25.1	17.1
Do., Cigars—m	May	444	449	416	516
Do., Manuf'tured Tobacco (lbs.)m	May	19.0	21.8	16.1	27.6
Whiskey, Dom. Sales (tax gals.)m	May	3.3	3.6	3.2	8.1

PRESENT POSITION AND OUTLOOK

the federal government contributes, increased social security payments, more and easier Government credit to would-be home owners. He wants to raise the minimum wage level and to boost wages elsewhere to "correct inequities." In brief, the politically inspired ingredient of the remedy to cure inflation is more spending power in the hands of the Government and civilians!

* * *

Then, to mask the resulting damage, he would ration and clamp **Price Ceilings** upon "scarce" commodities, thereby driving them into the black market at prices beyond reach of the average family income.

* * *

The President would also resurrect the **Excess Profits Tax** and establish other Government controls over profits. Since retained profits are the main source of new capital for plant expansion, and new equipment to cut production costs, this means that the second ingredient of the prescription to cure inflation is designed to keep production of goods from expanding to meet a rising demand that would result from administering the first ingredient, and to obstruct cost reductions that would facilitate a lowering of prices.

* * *

Fortunately Congress will not ratify such an inept program.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. 1—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

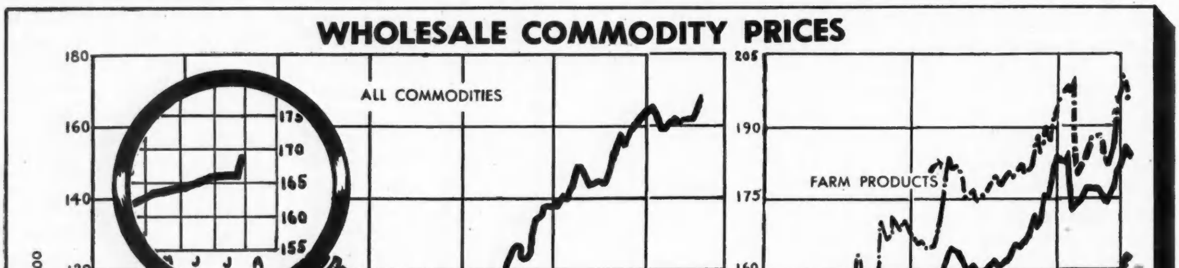
No. of Issues (1925 Close—100)	1948 Indexes High	Low	July 23	July 30
312 COMBINED AVERAGE	151.9	119.0	144.0	139.7
4 Agricultural Implements	240.1	178.8	230.2	219.2
11 Aircraft (1927 Cl.—100)	193.5	134.3	190.6	181.3
6 Air Lines (1934 Cl.—100)	515.6	403.8	431.6	403.8e
6 Amusement	106.8	78.7	84.7	81.2
13 Automobile Accessories	224.1	171.1	208.7	200.1
12 Automobiles	41.3	31.4	37.5	36.1
3 Baking (1926 Cl.—100)	21.9	16.4	21.9A	21.2
3 Business Machines	287.1	224.7	279.5	262.7
2 Bus Lines (1926 Cl.—100)	168.4	133.4	156.2	155.2
5 Chemicals	267.1	221.6	250.0	242.1
2 Coal Mining	26.9	14.7	24.9	24.5
4 Communication	56.1	42.3	49.4	47.8
14 Construction	71.5	56.6	64.5	62.3
7 Containers	346.0	287.1	304.9	293.5
9 Copper & Brass	119.1	92.0	110.3	110.1
2 Dairy Products	60.2	50.7	58.8	57.6
5 Department Stores	71.9	53.9	63.1	62.1
6 Drugs & Toilet Articles	184.4	149.8	167.7	158.4
2 Finance Companies	268.3	199.4	264.3	251.5
7 Food Brands	177.6	152.8	171.2	165.5
2 Food Stores	67.5	59.7	63.4	61.8
3 Furniture	88.3	70.9	80.6	77.6
3 Gold Mining	772.7	653.2	669.2	653.2e

(Nov. 14, 1936, Cl.—100)	High	Low	July 23	July 30
100 HIGH PRICED STOCKS	91.84	75.27	87.15	84.79
100 LOW PRICED STOCKS	182.86	135.10	172.77	167.38
6 Investment Trusts	71.6	50.0	63.3	62.4
3 Liquor (1927 Cl.—100)	843.5	637.7	742.6	732.1
9 Machinery	179.5	136.8	162.6	155.7
3 Mail Order	125.5	89.8	103.3	108.6
3 Meat Packing	112.7	92.0	102.7	99.7
13 Metals, non-Ferrous	189.1	138.0	175.5	174.3
4 Paper	48.7	34.1	43.7	42.6
24 Petroleum	301.0	199.5	279.1	269.8
19 Public Utilities	124.9	97.8	116.7	114.5
5 Radio (1927 Cl.—100)	30.6	17.8	27.7	26.8
8 Railroad Equipment	67.2	52.9	60.2	59.1
24 Railroads	30.3	20.5	28.4	27.7
3 Realty	27.1	21.1	23.7	22.9
2 Shipbuilding	140.5	102.8	131.9	127.5
3 Soft Drinks	516.5	380.0	396.0	380.0d
14 Steel & Iron	121.8	96.2	115.0	111.8
3 Sugar	54.7	44.8	53.7	51.8
2 Sulphur	281.9	206.6	273.1	265.9
5 Textiles	170.4	118.9	160.9	157.8
3 Tires & Rubber	33.6	27.5	31.8	31.3
6 Tobacco	69.8	62.4	69.8A	69.4
2 Variety Stores	327.8	286.9	306.4	202.2
17 Unclassified (1947 Cl.—100)	109.8	90.0	105.0	102.5

A—New HIGH since 1947. New LOW since: d—1944; e—1943.

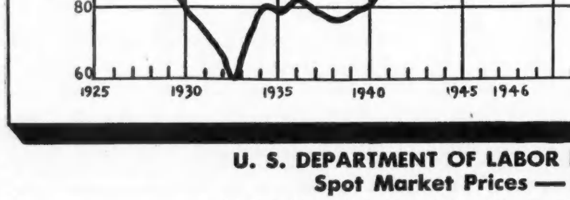
Trend of Commodities

Commodity futures suffered declines of varying severity snice our last issue, under pressure of heavy shipments to terminals where storage facilities are already overtaxed. An outstanding exception was the price for hogs which, in one trading session at Chicago, soared 75 cents to a dollar per hundred pounds, reaching a new high record. The Labor Bureau's index of spot prices for 7 leading farm staples is now 6% lower than a year ago; though the Bureau's broader index of wholesale prices for farm products is still up 6%. The price outlook for corn looks bearish. Private estimates place the yield this year at 3½ to 4 billion bushels, compared with the Government's latest guess of 3.35 billion. Harvesting this year is expected to be two weeks ahead of last year. Wheat, which brought more than $3 a bushel at Kansas City last November, is now selling there at little more than $2. Paradoxically, the price is actually below the Government loan value. Trade explanations for this are first: that the high moisture content of the grain now coming to primary markets renders it ineligible for the Government Loan and second: that putting grain under loan involves considerable red tape, along with expenses for interest and storage. Thus, if the spread is not too wide, many farmers prefer to sell outright. In view of improved crop prospects in Europe, the Government has set 1949 wheat planting goals at 8% under this year's acreage. With average yields, this would mean production of 1.1 billion bushels. Meanwhile, the Agriculture Department has issued a sharp upward revision in its estimate of world demand for this year's crop. The "new look" suggests that our wheat exports this crop year may not be much below the record 1947-8 shipments of 480 million bushels. The carryover may be larger.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August, 1939, equals 100

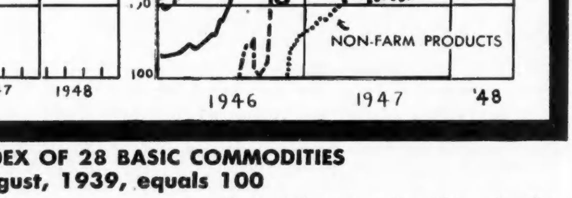
	Date Aug. 2	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	321.9	323.0	328.1	318.1	346.4	305.6	156.9
11 Imported Commodities	291.4	290.9	287.5	273.4	277.2	273.0	157.5
17 Domestic Commodities	343.3	345.7	357.4	350.8	382.5	328.7	156.6
7 Domestic Agriculture	358.8	382.1	383.4	369.5	437.4	372.5	163.9
12 Foodstuffs	384.5	401.3	420.1	393.6	436.5	364.7	169.2
16 Raw Industrials	263.0	275.6	274.6	273.7	282.9	267.9	148.2



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1948	1947	1945	1943	1941	1939	1938	1937
High	162.2	164.0	95.8	92.9	85.7	78.3	65.8	93.8
Low	149.2	126.4	93.6	89.3	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1948	1947	1945	1943	1941	1939	1938	1937
High	168.83	175.65	106.41	96.57	84.60	64.67	54.95	82.44
Low	144.05	117.14	93.90	88.45	55.45	46.59	45.03	52.03

Higher Gold Price? — Efffect on the American Dollar

(*Continued from page* 469)

by British dealers with the silent consent of the Bank of England. When the latter finally curbed this business, the New York market partly replaced London until last November when the U. S. Treasury issued new regulations specifically forbidding the export of gold at premium prices. These regulations, however, still permitted the re-export of processed gold at above parity prices. Taking advantage of this, London dealers began to ship to the U. S. sheet gold at a rate of $43 an ounce and a good deal of such business developed until the traffic was again stopped by U. S. intervention in early January.

Though London and New York are now impeded in their international gold business by restrictions placed on free dealings by their own authorities and at the instigation of the IMF, gold dealings elsewhere continue lively. In the Middle East and Far East, they have seldom been more active, at prices ranging from $41 to $53 an ounce.

When discussing gold and its future role in the world economy, the position of Russia should not be ignored. Quietly the Soviets have been stepping up their gold production, now estimated at an annual rate of $225 million compared with last year's U. S. A. output of only $76 million. Total Russian gold stocks are estimated near $2.7 billion, second largest of any country and about one-fifth of the total gold reserve held by governments outside of the United States. Instead of losing gold like most other countries except the U. S., Russia has been gaining constantly. With the help of slave labor, output has been increased enormously; and because of Russia's inability to buy the desired industrial goods abroad and particularly in the U. S., gold has been steadily accumulating.

Some day the growing Russian gold hoard is apt to play an important role both as an economic and political weapon. Moscow policy makers are doubtless aware how effectively these gold stocks can be used in the strengthening and coordination of the activities of herself and her satellites, in the creation of a powerful economic bloc with which the capitalist world will have to reckon. Probably also they expect that they can use their gold much more effectively during a world economic depression when the buying power of gold will be vastly greater than today. Once world markets are depressed, Soviet gold conceivably could be put to work to tremendous advantage of their owners; they can be relied upon to make the most of such an opportunity.

All the more, it seems, there is no point in frittering away our gold holdings in premature and probably vain attempts at currency stabilization abroad while existing conditions argue against the success of such efforts. Moreover, raising the gold price would merely play into Soviet hands by raising the purchasing power of their own gold hoard in terms of dollars, and by further strengthening their gold position vis-a-vis the rest of the world.

The attendant lowering of the gold contents of the dollar, in turn, would only add further chaos to the already badly unsettled currency situation abroad. This, too, would play into Russian hands by intensifying the problem of European reconstruction and heightening our own burdens correspondingly. Nothing could be gained by cheapening the dollar at this time, except the undermining of confidence in our monetary unit, both at home and abroad.

Far more vital and urgent is the halting of world-wide inflation, the restoration of confidence in currencies by appropriate fiscal and monetary action, and *then only* a realistic re-evaluation of their respective relationships. Gold hoards, now huge, will promptly come out of hiding when confidence is restored. It will then be possible to establish a normal price of gold; we shall also find then that there is enough gold in the world to meet all reasonable needs, including those of a revived gold standard.

Which Aircrafts in Best Position

(*Continued from page* 488)

from the large military orders received in May, the industry at the start of 1948 had enough uncompleted civilian business on its books to sustain its commercial transport production for the current year on a basis closely comparable to that of 1947, when deliveries totaled 355 units. The outlook for deliveries of personal planes, though, is less encouraging. During the first quarter, shipments of civilian personal aircraft were 1,500 less than in the same period a year before, and for all of 1948 may not exceed 7,000 or about half the number reported in 1947. This points to a total potential drop of around $25 million in volume for concerns specializing in this field.

1948 Sales Rising

Although new orders for military aircraft have been dismally scarce until recently, backlogs early this year represented some substantial unfinished business with the Government. Bomber and fighter programs started as far back as 1946 have only now reached a point where output has been placed on a relative quantity basis. For this reason it seems probable that by stepping up deliveries of planes long in process of construction, 1948 over-all sales of the industry will surpass the showing for last year, though production of recently ordered military planes will hardly have begun. Evidence of these improved conditions is shown by widespread restoration of interim results to the profit column by numerous concerns forced into the red in 1947.

While, as indicated at the outset of our discussion, it is necessary to look a long way ahead, perhaps even to 1950, before expecting profits of the aircraft to expand much as a result of the $2 billion new orders now on their books, profit margins should be widened on most business billed during the interval. This will be so because a large increase in work in process will permit a corresponding distribution of heavy overhead expenses over a far broader area, reducing unit costs in an increasing measure. In any event this trend should serve to temper the impact of excessively high operating costs on current operations, though they will always continue to plague managements in this industry if only because of the time lag between start and completion of contracts.

Looking ahead beyond the current year, it should be realized that the Defense Program as now outlined may be only the fore-

runner of long continued expansion by the Air Forces. The science of aeronautics is making such strides that even to replace obsolete equipment should keep the aircraft industry on a fairly profitable basis for a long time to come, that is unless a world-wide disarmament Utopia becomes a fact. Pending such a day, the established manufacturers of planes and parts should be kept busy, for all branches of the industry seem likely to benefit from the planned diffusion of Government orders in the long run. Duplicate or even triplicate parts have to be made for each plane that takes to the sky. This is especially true of the new jet engines that rapidly disintegrate under the terrific heat they create. Additionally, on-the-spot supplies of spare parts in every form must be provided to allow for normal wear and tear, not to mention battle conditions. Compared with actual war years, the $2 billion military orders are really very small, but still they may serve to give the industry a reasonable degree of much needed stability.

To select just what concerns will benefit more than others from the receipt of Government contracts is no simple matter at this time, for the program has been planned to give all qualified concerns a fair share of the pie eventually. In other words, those not receiving major contracts as yet at the Government level can expect an influx of subcontracts for parts from the primary manufacturers, or can safely count upon getting plenty of normal business when defense plans are more fully under way. The character and amount of original orders placed recently by the Army and Navy, however, do give clues to the prospective progress of this or that concern.

Backlogs Increasing

Twelve of the leading aircraft manufacturers shared in the large orders awarded by the Armed Forces in May, but the Government has pointed out that changed planning, as time goes on, may alter allotments. Boeing Airplane Company was given an order for 162 new B-50 long range bombers, bringing the company's backlog up to above $400 million, nearly double the former amount. Next in size as to dollar amounts were orders totalling about $400 million received by North American Aviation, covering 451 fast F-86 jet fighters, 51 jet bombers and 288 trainers. Lockheed's worries over a prospective slump in production before long were dissipated by receipt of orders for 457 F-80 fighters, 128 jet trainers, along with 82 Navy patrol bombers, about doubling its former backlog of some $100 million. Northrop's successful experiments with its flying wing jet bombers brought a first order for 30 of these B-49s, each valued at around $2 million.

Fairchild Engine & Airplane Corporation was encouraged by an order for 107 C-119 transports that should swell its existing backlog to around $70 million. Douglas Aircraft's order was for 356 additional AD attack planes, 28 large transports and 28 F3D fighters, probably raising its former backlog of $159 million by another $100 million. Republic Aviation has been asked to supply 409 P-84 Thunder-jets for the Airforce, presumably lifting its total unfilled orders to more than $80 million. Grumman Aircraft, already a leading producer of naval planes, landed an order for 317 jet fighters, 23 search planes from the Navy, along with 38 amphibians to be divided between the Army and Navy. Curtiss-Wright entered the picture with contracts to furnish through its subsidiary, Chance-Vought, 19 newly designed twin jet fighters without tails and 33 Pirate jets, while its Sikorsky division will supply 37 helicopters. It is thought that Curtiss-Wright's backlog must now be well over the $200 million mark. The Navy awarded Glenn L. Martin Co. a contract for 47 Attack planes, to swell its former backlog of around $105 million by $15 million or more.

Large Unused Funds Available

While Consolidated Vultee, Ryan, Bell and several other concerns failed to share in the orders placed thus far by the Government, the Army and Navy still have considerable appropriated sums at their disposal, and in any event most of these concerns may be expected to receive substantial sub-contract orders. New business in sight for a number of prominent engine builders such as Wright Aeronautical, United Aircraft, General Motors, Westinghouse Electric, General Electric, Bendix and Sperry should assume substantial proportions. This branch of the industry must rapidly step up production on a broad scale, for it presents the most difficult bottleneck to overcome.

The new horizons that have emerged for this aircraft industry since the earlier part of 1948, have naturally attracted widespread speculative attention. Shares in this group have advanced pricewise several times as fast as those of other industrials during general market upswings. Last year's depression in the industry, though, had broadly deflated share prices, so that the recent upturn has been from an abnormally low base.

Granted that the brighter outlook for aircraft manufacturers is based mainly upon longer term potentials, the fact that quite a number of the stronger concerns came through the latest adverse period with results in the black, or with large cash resources that permitted no interruption in dividends, enhances their current position. With careful selectivity, some share maybe found in this group selling at prices that should permit expectation of eventual appreciation.

Outlook for Foods in Second Half

(*Continued from page* 485)

upon profit margins was unavoidable and net earnings fell off sharply in this field. Now that the corn crop seems likely to exceed 3.2 billion bushels, it is quite possible that the price of this commodity may recede substantially before the second half year has ended. In this event conditions may improve for the corn products manufacturers, at least sufficiently to allow wider profit margins than in recent months. But all will depend on when and how far these price trends develop.

Sales of starches to industries and householders should remain on a more profitable basis, though the outlook for those of syrups and corn sugar is less promising. All considered, full year earnings of this group will probably reflect serious competition and readjustments of inventory values, with net per share rather unfavorable compared with many other years. Some of the concerns with exceptionally strong working capital positions may not change

their current dividend policies, but in other instances a reduced rate should occasion little surprise. The outlook is brighter for such companies which largely restrict corn purchases to meet requirements for products sold for delivery several months ahead, or which have established adequate reserves against possible inventory losses.

Widespread wage gains indicate that demand for meat will continue strong throughout the year, thus enabling the packers to maintain prices at a satisfactory level. Should a reintroduction of Federal controls or consumer resistance force prices to decline, the packing industry has an advantage in its very rapid turnover, and inventory losses would be lessened by LIFO methods of accounting now generally adopted by the industry. Higher prices and flush family incomes pushed sales of the "Big Five" meat packers up 69% in the fiscal year ended November 1, 1947; but rising costs of wages and animals held the gain in net to about 6.9%. Coming to 1948, total meat production declined 19% in the Jan. 31 quarter compared with the similar period a year before, but higher prices lifted dollar sales by 16%. Under such conditions, an uptrend in per share earnings almost certainly would have ensued. In the second fiscal quarter, though, strikes lasting for about nine weeks seriously interfered with operations of the major concerns and their volume dropped substantially.

Effects of High Grain Prices

In viewing second half year potentials for the packers, it will be realized that high grain prices have considerably discouraged animal feeding, forcing large amounts of leaner meat animals to market. In consequence, the number of sheep and lambs produced in 1948 may be smaller than in any year for the past two decades. The spring pig crop was reduced by an approximate 10% compared with a year ago, and beef production for 1948 is headed for a significant drop. Under the circumstances it hardly seems possible that any significant downtrend in prices for processed meats will occur in the near term. Full year reports of the meat packers may show a moderate reduction in net from last year's levels, largely resulting from interrupted activities earlier in theyear, but dividends should be amply covered.

In the dairying field, it looks as if sales and earnings should remain satisfactory during the balance of the current year. Consumption of fluid milk and cream during the first four months of 1948 was about the same as a year earlier, according to the Department of Commerce. The number of cows on the farms was by 2.6 million smaller on January 1, 1948 than three years earlier but an ample supply of young stock will probably halt a further decline. Pasturage this year is in better condition than the ten year average; the farmers have now culled out poor stock and the recent advance in prices for milk at the farm level has encouraged increased production.

Total dairy output in 1948 is expected to approximate that of 1947 and the continued uptrend in retail prices, except for butter and cheese, should enable the dairies to maintain satisfactory margins. Net earnings of the

leading concerns should prove fairly stable in the second half, aided by large seasonal sales of ice cream and a sizable export demand for evaporated milk. Indications are, however, that peak profits in this field have already been achieved, though earnings may continue to look favorable if compared with prewar. This means that dividends of the more strongly established concerns are secure, for working capital positions have been substantially strengthened in recent years by conservative dividend policies.

The canners face the balance of the current year with a good deal of confidence. Low priced canned foods have been greatly improved in quality and variety in recent years, so that in times like the present, when soaring prices for uncooked foods have created serious problems for many households, foods in tin and glass containers are gaining popularity. During 12 months ended February 29, 1948, sales of many of the large canners were well above a year ago and may continue their uptrend during the present year. Volume gains were especially characteristic of canners in a position to secure large packs of salmon and pineapple. Sales by some canners with less diversified output and concentrating upon lower quality goods, however, declined.

Competition among the canners, as well as inter-product competition, is so heavy that price advances are not always easy to establish, although costs for farm products, containers and wages have risen relentlessly. When special crops are in ample supply, prices for them in canned form usually decline, though they may rise at the same time for scarcer fruits and vegetables. The current prospect is that crops of snap beans, spinach and tomatoes will be moderately reduced this year, while corn, lima beans and beets will be plentiful. As selling prices for canned goods are not likely to advance much during the medium term, at least on the average, profit margins of producers may narrow somewhat in view of rising expenses, but both operating income and final net of the leading concerns should prove quite satisfactory compared with most years. Hence conservative dividends now paid are expected to hold without difficulty.

The outlook for flour millers portends a near term downtrend in sales, though results for the fiscal year ending May 31, 1948 may show a larger volume than in the previous year for the leading concerns. Now that the 1948 wheat crop, estimated at around 1.1 billion bushels and the third largest on record, will leave the United States with a substantial surplus over domestic needs, even allowing for export needs under the ERP, lower prices for this grain have been followed by weakness in the flour markets. Demand for flour both at home and abroad may lesssen during next year, or at least register no improvement.

While net earnings of the leading millers, aided by substantial profits on by-products, may compare favorably in the fiscal year recently closed with those of the year previous, equal results will be unlikely a year hence. As long as Government support holds wheat prices at near to current levels, the millers need not worry much over their inventories. The common practice in this industry is to hedge all of their grain purchases, and most of the millers additionally carry contingency reserves that could absorb any inventory losses that might occur. Despite prospects of an earning decline, the financial status of the leading millers is so strong that current dividend rates should remain unchanged during the medium term.

Several manufacturers of packaged foods are reporting substantial gains in volume and profits and their outlook for the balance of 1948, and even into 1949, is most encouraging. Distributors have learned by experience that well established brand names are easier to sell than the private brands many of them attempted to feature. This has been true not only of ordinary packaged items but of frozen foods as well. About a year ago it looked as though the popularity of frozen foods had begun to fade, but in recent months the demand for them has sharply risen. In part this has been due to increased sales of home freezers but more significantly because of the better quality foods offered in this form and their steadily larger variety.

Packaged Food Manufacturers Also Vulnerable

Producers of packaged foods, though, are not less vulnerable to a sharp drop in commodity prices

than other divisions of the industry. Indeed, the fact that their merchandise is less perishable could tend to encourage the accumulation of large warehouse stocks that would have to be marked down if food prices were to start a downward swing. Most of the successful concerns, though, have retained substantial amounts of earnings in the business to guard against inventory declines, and after an interval of readjustment would be in a position to restore profit margins to desirable dimensions. The shares of concerns in this group appear to have considerable speculative merit; the excellent recent showing reported by some of them has not been reflected much by firming share prices.

The bakers of bread, cake, biscuits and breakfast foods seem to be doing exceptionally well in the current year, generally reporting an uptrend in volume and net earnings. Equally encouraging are admissions by some of the leading managements that prospects for a year to come are bright. Lower prices for flour have tended to widen profit margins of the more firmly established concerns in this special field, for the specialties they produce are not highly priced and thus attract consumer buying. In other words, there has been no need to reduce prices just because raw material costs have turned downward. A prolongation of the high income era and high living costs should prove beneficial to producers of relatively low priced foods in this field, for their long established brands are not only in strong favor but economical to purchase. Dividend payments by at least one important baker have recently been increased, and the outlook for stable if not improved distributions by others in this special group is promising.

Wholesale distributors of foods should continue to achieve satisfactory profits as long as the inflationary price period lasts, but their need to carry large inventories may create difficulties if prices start to tumble fast. The retailers to whom they sell are exceedingly price-conscious, a factor that is tending to reduce earnings of the wholesalers despite current well sustained demand. In view of highly competitive conditions, this trend may be extended for some time to come.

Has Paper Industry Struck Balance?

(*Continued from page* 487)

In the previous war newsprint rose from $42 a ton in 1915 to $112.60 five years later, whereas the advance from 1942 to 1947 was from $50 to $90, or only 80 per cent.

The fact that the $4 a ton advance in newsprint was not accompanied by upward revisions in other sections of the industry is significant. It suggests that supplies in book paper, paperboard, etc., are more abundant. Accordingly, recent wage increases must be absorbed by manufacturers and operations in the last half of the year are unlikely to be as profitable as in the first six months. Nevertheless, demand promises to be well sustained and margins should not be seriously affected. Effects of increasing competition seem likely to be more evident in the case of smaller concerns which have been unable to finance mod-

ernization of facilities.

Production of paper and paperboard in the first six months approximately an annual rate of 22 million tons, compared with slightly more than 21 million last year and slightly less than 16 million in 1939. Total capacity by the year-end is expected to exceed 23 million tons, or some 40 per cent in excess of the industry's 1939 rated output. Container plants also have been enlarged and mechanized to the point where output far exceeds pre-war capacity. Competitive conditions are becoming more aggressive in this division as users abandon the wartime practice of carrying abnormally large inventories.

Wages have advanced generally in the paper industry and on the average now range more than 100 per cent above 1939 levels, but as a factor in production costs labor is relatively low, amounting in most lines to about 15 to 25 per cent. Raw materials represent the chief item in manufacturing costs, while power and transportation are other important items.

Earnings Still Improving

In general, diversified paper companies experienced satisfactory results in the first half of the year. Although in some instances results were under those of the first six months of 1947 and in others the improvement was negligible, nevertheless profits were well above levels to which the industry had been accustomed prior to the war. For the most part then, dividend rates appear protected and seem likely to be continued through the remainder of the year, at least.

International Paper, leading factor in the industry, is expected to net from $11 to $14 a share for the year; St. Regis is expected to register further slight improvement over 1947 with earnings of $3 to $3.65 a share compared with $2.66 in 1947; Rayonier, Inc., on basis of its showing for the first six months, gives promise of earning $8 to $10 a share, which would be far ahead of pre-war experience; Union Bag & Paper may approximate last year's $9.57 a share, also an abnormally high figure. Champion Paper & Fibre recently reported earnings of $5.57 a share for the fiscal year ended April 30, continuing uptrend of recent years, and progress in plant modernization suggests that profits in this general area may not be too much to expect in the near future. Crown Zellerbach results in the new fiscal year beginning May 1 afford hope of attaining earnings this year at approximately the $6.81 a share reported for the year ended April 30, which compared with $5.22 in the preceding year.

A comparison of earnings of representative companies with their pre-war experience strongly suggests that results for the foreseeable future may range well above those of the decade prior to the war. With the benefit of price increases and an expansion of 30 to 50 per cent in physical output, sales in terms of dollars seem likely to register gains of 65 to 100 per cent or more—especially for concerns which have installed additional plant capacity. Hence, the natural consequence of larger volume is substantial profit improvement — especially since in most cases margins have widened. So long as general business activity holds at a high level, price cutting in a dangerous degree may be avoided.

Detailed statistics on earnings and dividends of representative companies may be found in the accompanying tabulation. These will be helpful in relating current results to past periods, for they indicate the effects of increase in sales volume.

Operations in linerboard and container manufacturing disclose evidence of keener competition. Hinde & Dausch reported modest improvement in the first six months, but Container Corporation's earnings registered a decline from the first half of 1947 and Robert Gair Co. failed to do as well in either the first or second quarter this year as in the corresponding periods a year ago. This situation probably is due to completion of new paperboard and box facilities in recent months that enabled the industry to supply consumers' requirements so promptly that users no longer needed to carry extensive inventories of containers. In recent months most purchasers of paper and paper products have followed a policy of reducing inventories despite the threat of wage increases resulting in price boosts.

Production was curtailed sharply in the first half of July when most manufacturers closed down for the annual vacations now granted to employees. Operations have returned to normal with production running better than 100 per cent of rated capacity and if supplies should show indications of becoming excessive it would be logical to expect mild price competition to force suspension of higher-cost marginal mills in the North. Paperboard production has been running recently at about 90 per cent of capacity, compared with 99 per cent a year ago, indicating that the effect of moderate over production is being felt.

Fundamentally, the principal reassuring factors tending to sustain profitable operations of paper and container manufacturers are that labor is still relatively low in relation to selling costs of products and despite recent increases in some items, current prices are moderate as compared with the general average of commodities. Buyer resistance has not been encountered regardless of some slackening in orders, and as soon as consumers' inventories are reduced to normal peacetime levels, it would seem reasonable to anticipate resumption of forward business in line with customary seasonal demand.

In appraising dividend prospects, sight should not be lost of the substantial financial rehabilitation by virtually all important factors in the industry. Effects of overcapitalization of the 1920's and subsequent difficulties encountered in the depression have been cleared away. International Paper, as an example, has eliminated its heavy funded debt and has substantially reduced claims of preferred holders. Champion has made similar progress and St. Regis has experienced such progress that dividends were resumed late last year after a lapse of 16 years. Several smaller companies have recapitalized and placed their houses in order. For the most part, the industry well remembers the vicissitudes of the last decade prior to the war when penalties were exacted for excesses of the previous boom. Those difficulties afford the greatest assurance of conservatism for the future.

New Age for South Africa

(*Continued from page* 481)

South Africa is now ready to do. It is feared—and not without reason—that a higher standard of living and more education

would intensify the pressure for a direct share in rule on the part of the natives. As a matter of fact a Nationalist Party, now in power, would like to turn the clock back: reduce the non-whites, the Bantus, the Indians, and the half-casts to a status inferior even to the present one, deport some 300,000 Hindus, and practice severe segregation of the natives so that they would not come into any contact with European civilization.

But the clock cannot be turned back. It will be more and more impossible to keep the natives backward so as to have a plentiful supply of cheap labor for mines and farms, which even more than the gold mines have suffered from the exodus of the black laborers to the cities in search of better-paid jobs in manufacturing industries.

A main reason for this is the rise of "Britain in Africa." A gradual materialization of the plans for large-scale raising of oilseed plants (peanuts), cotton, rice and tobacco so as to make Great Britain independent of the dollar area, absorbs some of the migratory labor. Also, "operation peanuts" cannot be very well carried out without educating the natives, raising their standard of living, and eventually giving them some share in rule.

The Dutch-speaking South Africans sense the danger of this. They see their dreams of the Union being "the workshop of Africa" greatly deflated. All this explains a growing resentment among the descendents of the Boars, and the drifting of the Union away from the Empire into an isolation of her own.

Our Government Finances Today

(*Continued from page* 475)

is reflected in changes in the public debt outstanding, after allowance for increases or decreases in the Treasury cash balance.

During World War I, the debt rose from $1 billion to a peak of $26.5 billion in 1919, after which it was reduced $10.5 billion in 10½ years, despite four reductions in tax rates. From the inter-war low of $16 billion in 1930, the succession of deficits carried the debt to $40 billion in 1939.

Our defense program, followed by World War II, raised the debt to a peak of $279.2 billion in February 1946. Since that time it has been reduced to $252.3 billion at the end of June 1948. While this reduction of $26.9 billion seems impressive, some $21 billion represented merely the drawing down of excess Treasury cash built up by the last war loan drive, which is quite different from genuine debt reduction through an excess of receipts over expenditures. There is likelihood of little if any further reduction in debt during the next year or more, in view of the above figures indicating a mere balance in the budget, with the added threat of war.

Perhaps the most difficult, as well as the largest item, in the whole $40 billion budget is the $12 billion now allotted to national defense. This is due to the complexity of the defense organization, and to the growing tension in international relations. Budget experts in Congress, and in business and trade organizations, who are appalled by the size of the overall expenditures and are seeking ways to economize, have a natural hesitation in recommending specific cuts in defense appropriations. No one wants to be accused of not wanting adequate defense.

Co-ordination Needed

Yet more and more spending is always being called for by the military heads in charge of the Army, Navy, Air Force, and the many other services. It is no secret that the unification of the armed services has thus far failed to secure the cooperation and the savings expected, and that the heads of the different branches are unable to agree among themselves as to their programs and financial requirements. Congress and the public were amazed at recent hearings to learn what a negligible active defense force the country has today, despite $12 billion annual expenses.

One of the most important tasks that will face the new Congress, and one that should be urged by public-spirited citizens, is to review in detail the entire military program, and while assuring adequate funds for the safety of the nation, to strike out all outlays that do not measurably contribute to the immediate or long-term strength, and to eliminate inefficient and wasteful methods of which there is evidence on every hand.

Moreover, Congress should be made to realize that the real military strength of our nation is not in its fighting forces alone, but is

in the soundness and capacity of its industry, agriculture, transportation, and finance. If during peacetime too large a proportion of the total national income is spent directly on defense, the nation as a whole is likely to be weakened rather than strengthened.

Another fundamental issue facing Congress and the people is that any sizable relief from heavy taxation, and any genuine amortization of the war debt, must come from a scaling down of the multitudinous functions that during recent years have been seized by or thrust upon the Federal Government. Mere "economy," desirable though that may be, is not enough. If certain functions are to be carried on, they will cost money, regardless of how efficiently they are handled.

Attempts to cut back specific activities in the various civilian fields, as in national defense, create bitter controversy. In the 1949 budget there are hundreds of millions of dollars for activities that have been started or greatly expanded since 1939. These include the cost of regulation or subsidies in housing, transportation, public utilities, transportation, labor relations, agriculture, education, natural resources, and social welfare.

Congress, expressing the public interest and the wish of the people, should carefully review these activities and decide which are really necessary and desirable, and how many might be returned to the states and municipalities as their proper responsibility.

Although, as noted above, the opportunities for reducing budget expenditures through economies are limited, this is no reason for belittling such efforts. In dealing with the world's largest business organization—the U. S. Government—even relatively small changes (either plus or minus) quickly aggregate into imposing totals.

The Joint Congressional Committee, set up under the government reorganization law last year, has done an outstanding job in pruning expenditures, but it needs to be backed up more strongly by public opinion. Many of its carefully studied cuts were later restored piece-meal by pressure groups as the price of votes on other measures.

Red tape, duplication, and waste are notorious in many of the government departments now numbering over 1,000. For example, last year the Veterans Administration asked for $7,900,000 for printing 3,674,000,000 forms, an average of 200 forms for each veteran. It asked also for $557,902 for 303,217,500 letterheads. Countless other illustrations could be cited.

Senator Byrd, long a leading exponent of government economy, recently recommended that the Government discharge 630,000 civilian employes, or three out of ten on its payroll, and declared that this could be done without impairing efficiency. This would still leave 1,482,000 civilian employes, or about 500,000 more than in 1939.

In conclusion, it seems clear, from the experience over a long period of years, that it is extremely difficult if not impossible for the American people to bring about a reversal in the soaring of government expenses and taxes. Yet unless these upward trends are checked, the people gradually lose their liberties and opportunities, and freedom of action. It is a fair question today whether the federal budget is not out of control.

There is no "easy" or "painless" way to cut government spending. It cannot be curtailed in any sector without reducing the income of some groups, who usually resist it with every effort.

Popular Fallacies

One of the greatest obstacles to the control of spending is the fallacy of "something for nothing," is still widely held. Almost everyone is glad to receive the benefit of "federal funds"—despite the fact that they come, in the last analysis, from taxing the people. Many leaders appeal for "federal aid" for a variety of welfare projects in states and municipalities well able to take care of such responsibilities themselves.

Politicians are proposing anti-inflation measures such as price ceilings and consumer rationing, yet do nothing to check the inflationary effects of the greatest spender of all—the Federal Government — whose disbursements and public debt are among the most virulent inflationary influences.

In President Truman's special message to the Congress recalled to fight inflation, nothing was said of the need to curb government spending as a prime inflationary factor. On the contrary, Mr. Truman called for vast new federal expenditures for such varied projects as public housing, slum clearance, aids to education, expanded social security coverage, an increase of at least 50% in old-age benefits, additional pay increases for government employes, restoring funds cuts from the T.V.A. appropriation bill, and a "loan" to finance a new home for the United Nations. At the same time, the President urged an increase in corporate income taxes, which at present take 38% of corporate net earnings and far more than total dividends, and are a major element in keeping up the cost of all goods and services.

No one political party can give positive assurance that total spending will be cut, for all representatives when elected are subject to terrific pressures whenever they undertake efforts at specific curtailment. Worst of all, they lack vigorous support by the voters at large.

It is all very well to have the careful budget studies by congressional committees, and groups of private bankers, business men, economists, accountants, and tax experts, and the flood of informative and inspiring articles and editorials on public finance.

But in addition to this, what is needed on the part of citizens and voters is not just "talk," but Action to support those why try to make economy politically popular.

Tobaccos Earnings Prospects

(*Continued from page* 491)

year, net earnings have been irregular. American Tobacco in spite of an increase in sales of 8% in the first quarter reported only $1.24 compared with $1.53 last year. Liggett & Myers, on the contrary, earned $3.59 in the first half vs. $3.09 last year. Other companies have not published interim share earnings.

How much will the increase in cigarette prices raise the earnings of cigarette companies this year? A price increase of 35c per thousand for Luckies and Pall Malls and 40c for Camels, Chesterfields, Phillips Morris, and Old Golds, would afford a very substantial gross increase in earnings, but allowance must be made for increased Federal taxes, higher tobacco and labor costs and the fact that the increase is only effective for about 40% of the calendar year. If net earnings were continuing at the 1947 rate and

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the increase had been effective from January 1st, share earnings for common stocks would be increased about 80% or more, it is estimated. But considering possible retarding effects on consumption gains (particularly if some of the states should raise tax rates) as well as the higher prices of raw tobacco and the increase in overhead it seems unlikely that the cigarette companies can show increases of more than 10-30% this year in net earnings.

Superficially it might appear that the cigarette companies could double or triple their earning based on the current increase. Thus American Tobacco with sales of 111 billion cigarettes last year and a price increase of 35c per thousand would gain nearly $39 million in gross sales. However Federal income taxes of 38% cut the amount down sharply, and for the five months period (August-December) the net amount would be only about $1.70. When it is considered that this gain must absorb the sharply higher costs for the entire year, it is obvious that 1948 can hardly show much increase over 1947. This comment applies to the four leaders — American, Reynolds, Liggett and Lorillard—but Philip Morris may gain bigger benefits. It is estimated that a 40c increase per thousand would net Morris about $3.46 per share compared with last year's earnings of $2.60 —hence it should be able to retain a proportionately larger amount in relation to past earnings.

Next year the companies may gain more substantial benefits (unless there is a recession in sales—possibly as much as 40% over 1947 earnings. However, if the inflation spiral continues, some of these benefits may be lost. It seems unlikely that dividends will be raised in proportion to the increase in earnings, as the companies may wish to improve their financial position, which has deteriorated in recent years.

The tobacco industry may benefit eventually by new methods of increasing the yield per acre and thus cutting farm costs. After a five-year study of plant nutrition it has been discovered that by applying copper sulphate to the soil along with regular fertilizer (at an added cost of only 10c per lb.) the growth of the tobacco plant can be increased 25% or more. Moreover, the quality of the crop may be improved. The best results will occur in territories deficient in copper.

The cigarette business is becoming more concentrated in the hands of the big three brands—Luckies, Camels and Chesterfields. These are the big advertisers and keep their names constantly before the public. Hence they increased their share of cigarette sales from 66% in 1939 to nearly 79% last year; and apparently these gains are continuing this year. However, the smaller producers are still trying to gain a larger share of the business. Philip Morris some time ago opened a $7 million advertising program. Brown & Williamson have repacked their Raleighs in new aluminum foil wrappers and have brought out the Life cigarette, with a big New York City advertising campaign featuring size, flavor and wet-proof paper.

The outlook for other divisions of the tobacco industry seems less favorable than for the cigarette companies. Sales of cigars declined sharply in January as compared with last year, gained in February-April, but in May again dropped behind the 1947 figures. Sales of lower-priced brands are doing better than high-priced cigars. Higher costs and larger advertising expenditures are cutting into profit margins. It seems unlikely that cigar companies can make a general increase in the price of their products because of the wide variations in brands, etc.

Sales of snuff increased 14% early this year due to replenishment of distributors' stocks. While later sales may make a less favorable showing, total sales for the year are expected to exceed last year's 39 million pounds slightly. While new operating economies will offset rising costs to some extent, net earnings may recede slightly in our opinion because of higher raw tobacco costs. But the snuff industry is noted for its stability, and changes in earnings may prove relatively small. Dividend rates may be maintained at current levels, although in some cases they are being paid partially out of surplus.

Significant Trends in Second Quarter Earnings

(*Continued from page* 473)

like interval in 1947 when the showing aroused much favorable comment. When the expansion program of this concern is fully completed in coming months, further volume and earnings gains are likely to be reported.

At this point in our discussion, it is just as well to turn to a number of situations where narrowed profit margins or lower sales have produced less satisfactory results; there are more of these than we can cover within space limitations. Volume of Minneapolis-Honeywell Regulator Company for six months ended June 30 was reported as $24.5 million in contrast to $30.4 million in the 1947 first half. As a result of this drop in gross income net earnings declined at an even faster rate to $1.21 per share compared with $2.51 a year earlier. This reflects the problem of high breakeven points when volume declines are experienced. What occurred in this instance was a substantial decrease in orders for standard

controls from oil and gas burner manufacturers, though sales to industrial, aeronautical and commercial users eased the drop. Public demand for all types of heating equipment has been seriously affected by the much publicized scarcities of fuel oil, though little doubt exists as to its permanency and growth potentials, given a little time.

An 11% increase in sales was reported by Monsanto Chemical Company for the recent six months period over the 1947 first half year, but net earnings dipped to $1.73 per share against $2.24. This adverse showing, though, by no means represents a real trend for earnings as yet do not include any recovery from insurance settlements for the Texas City disaster. Also, full production from these reconstructed plants is only about to commence as we go to press. Interim reports of Monsanto henceforth are apt to disclose substantially improved net earnings.

The quarterly sales of Bendix Home Appliances, Inc., held almost steady compared with a year earlier, but net income per share declined to $1.57 against $2.34 in the like 1947 quarter. Increased costs of raw materials and manufacturing, plus a change over to new models is given as an explanation. Though sales of Pittsburgh Plate Glass Company for the half year expanded by $3.5 million, rising costs of wages, materials and freight rates reduced net earnings by more than $600,000 compared with a year earlier. Six month's net per share of this concern was reported as $1.59, whereas a year ago they were $1.66. Unseasonable spring weather is held accountable by Devoe & Raynolds for a decline in its B common share earnings to $1.19 in the first half compared with the 1947 showing of $1.54.

In reporting a sharp drop in net earnings for the first six months of 1948, Colgate-Palmolive-Peet Company has some interesting explanations. Domestic sales during this period declined to $111.7 million from last year's level of $132.3 million as pipelines became filled and the public bought less of the higher priced soaps. Then the company marked down inventories substantially, apparently charging part against operating costs as well as reducing inventory reserves by $1,250,000. The total net income transferred to earned surplus was reported as equal to $2.51 per share compared with $4.78 shown for the first half of 1947.

By and large the midyear reports reveal widely divergent earnings trends among different industries and their components, as usual, but increasingly influenced by demand-supply factors and the impact of rising costs.

BOOK REVIEWS

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By Max Beloff

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Translated by Gerard Hopkins

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Henry Holt and Company $2.75

Market Trends

(*Continued from page* 467)

about 28% in aggregate corporate profits, over last year's first half, is due almost entirely to the fancy profits of the oil, automobile and mining industries. This amounts to saying that profits in the great majority of lines are either static or sagging. Everybody knows that they can slump sharply whenever there is even a moderate decline in sales and prices.

There is no change in our cautious policy. Reserves in cash, or equivalent, should not be less than 50% in average accounts. More than this can be justified in accounts concerned primarily with capital appreciation, less in those putting emphasis on income return. —Monday, August 9